ANNUAL REPORT 2011

البـنـك الـعـربـي المـتـحـد
UNITED ARAB BANK

ANNUAL REPORT 2011

Winner of ‘Bank of the Year 2011 UAE’ award from
Financial Times Banker magazine

Head Office
H.E. Sh. Abdulla Bin Salem Al Qassimi Bldg
Al Qassimi Street
P.O. Box 25022, Sharjah, UAE
Tel: +971 (0)6 573 3900
Fax: +971 (0) 6 573 3906
e-mail: info@uab.ae
Website: www.uab.ae
Swift: UARBAEAA

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

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

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

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

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

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

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

Ras Al Khaimah
Manar Mall Branch
P.O. Box 615, Ras Al Khaimah
Tel: +971 (0)7 227 9911
Fax: +971 (0)7 227 0969

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

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

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

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

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

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

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BOARD OF DIRECTORS

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
Chairman

Founder and Chairman of the Board of United Arab Bank PJSC, since 1975. Following graduation from Jordanian Officer Cadet School and Mons Officer Cadet School in U.K., served in the armed forces in different capacities prior to retiring at the rank of Major General which included Under Secretary of the Ministry of Defence, Chief of Staff, Chairman of the Court of Crown Prince - H.H. Sheikh Khalifa Bin Zayed Al Nahyan.

Assumed the role of the Chairman of the Board of Arab Organization of Industries and Establishment and is the Chairman of the Board of several public and private companies amongst which GIBCA, Grand Stores and Coral International.

Decorated by several medals including Jordanian Star 1st Class by King Hussein, 1st Class Medal of Merit by President Al Sadat, Superior Order Staff General by King of Morocco, Nilein Medal by President of Sudan, 1st Class Emirates Military Medal by the President of United Arab Emirates.

Mr. Omar Hussain Al Fardan
Vice Chairman

Chairman of National Bank of Oman. Director of the Commercial Bank of Qatar and of United Development Co. President of various companies of the diversified Alfardan Group. President of Resorts Development Co., Chairman of Qatar District Cooling Co. and Vice Chairman & Managing Director of Qatar Dredging Co., Board Member of the Qatar Red Crescent Society.

Sheikh Abdullah Bin Ali Bin Jabor Al Thani
Board Member

Vice Chairman of Commercial Bank of Qatar and Director of National Bank of Oman. Owner of Abdullah bin Ali Trading Company. Successful Businessman and son of Sheikh Ali bin Jabor Al Thani, one of the founding members of the Bank and Chairman of the Board of Commercial Bank until 1999.

Sheikh Mohammed Bin Faisal Al Qassimi
Board Member

Chairman, Vice Chairman, CEO, and Managing Director for various business groups and associations including the Italian Chamber of Commerce in the UAE and the GCC, Union Insurance Co PSC, and Faisal Holdings. Founder of MANAFA LLC, a holding company with diversified activities in the fields of hospitality, textile, fast moving consumer goods, construction material, real estate investments, tourism, security printing, and private equity. Has represented the UAE on many occasions as member of its Economic Delegation. Member of the Young Arab Leaders (YAL).

BOARD OF DIRECTORS

Mr. Ahmed Mohamad Hamad Al Midfa
Board Member

Chairman of Sharjah Chamber of Commerce & Industry and Expo Centre Sharjah and Board Member of the UAE Federation of Chambers of Commerce and Industry. Director of the Bureau of HH the Ruler of Sharjah, Director General of Sharjah Ports and Customs Department, and of Second Deputy Chairman of the Federal National Council. Member of the Egyptian-UAE, the Tunisian-UAE, and Oman-UAE Business Councils and Co-Chairman of the Joint UAE-Germany Business Council.

Mr. Mohamed Abdulbaki Mohamed
Board Member

Chairman and CEO of Petrolcom Oil and Gas Services and Cristal Hotels & Resorts. Director of Interplast & Cosmoplast Companies and Arab Fund for Economic & Social Development. Alternate Governor of OPEC Fund For International Development. General Manager of Emirates Industrial Bank and Board Member for a number of leading companies.

Mr. Ahmed Mohamad Bakheet Khalfan
Board Member

Previously Deputy General Manager of Emirates Industrial Bank. Served as Chairman and Board Member of Emirates Modern Poultry Company and Board Member of a group of companies including Emirates Rawabi, ALICO, Al Khaleej Glass, and Takaful Re.

Mr. Andrew Stevens
Board Member

Member of the Board of Directors of National Bank of Oman. Group Chief Executive Officer of the Commercial Bank Group. Chairman of Diners Club Egypt and of Diners Club Bahrain and Chairman of Orient 1 Ltd. Board Member of Red Crescent Society in Qatar.

Nicholas Coleman
Board Member

Mr. Coleman is the Executive General Manager and Group Chief Financial Officer of the Commercial Bank of Qatar (CBQ). Graduated from London Guildhall University with a BA (Hons) in Economics, and a Fellow of the Institute of Chartered Accountants in England and Wales, he joined CBQ in October 2008. Mr. Coleman is also a Director of Orient 1 Limited, Massoun Insurance Services LLC, Asteco Qatar LLC, Gekko LLC, Commercial Bank Investment Services and CBQ Finance Limited. He was previously with Morgan Stanley, The Bank of New York, National Westminster Bank in London, and Arthur Young in Kuwait.

Robert Sharpe
Board Member

Mr Sharpe is a Board Director with National Bank of Oman and the Vice Chairman of Orient 1. He has over 30 years experience in Banking, together with considerable experience as an Independent Board Director, having served on the Boards of several listed and private companies in the UK and Europe. Before moving to Oman, he was the Chairman of a Joint Venture between Barclays and HSBC and was an independent Director on the Board of the Barclays Bank Pension Fund.

Najla Al-Midfa
Board Member

Najla Al-Midfa is the manager of Entrepreneurship Development at the Khalifa Fund for Enterprise Development in Abu Dhabi. Prior to joining Khalifa Fund, Najla was a senior associate at McKinsey and Company's New York office, where she worked on a range of strategy-related projects, primarily serving clients across the financial institutions sector. An Emirati national, Najla holds an MBA from Stanford University and is also an Aspen Institute Fellow.

Ahmad Salem Abdulla Salem Al Hosani
Board Member

Ahmed Salem holds a Master of Science in Business Management from University of Wales. Holds the post of real estate development manager at Al Sahel Real Estate Company since 2008, managing company's real state portfolio and exploring new investments. Board Member in several Public Shareholding Companies, such as Ras Al Khaimah National Insurance Co. "since 2009" and Gulf Pharmaceutical Industries Co. (Julphar) "since 2011", in addition to being a Board Member in Gulf General Investment Company during the period from 2009 to 2011.

PRINCIPAL OFFICERS

Paul Trowbridge
Chief Executive Officer

Awni Alami
Deputy Chief Executive Officer

Shahid Baloch
Executive Vice President
Group Head - Commercial Banking

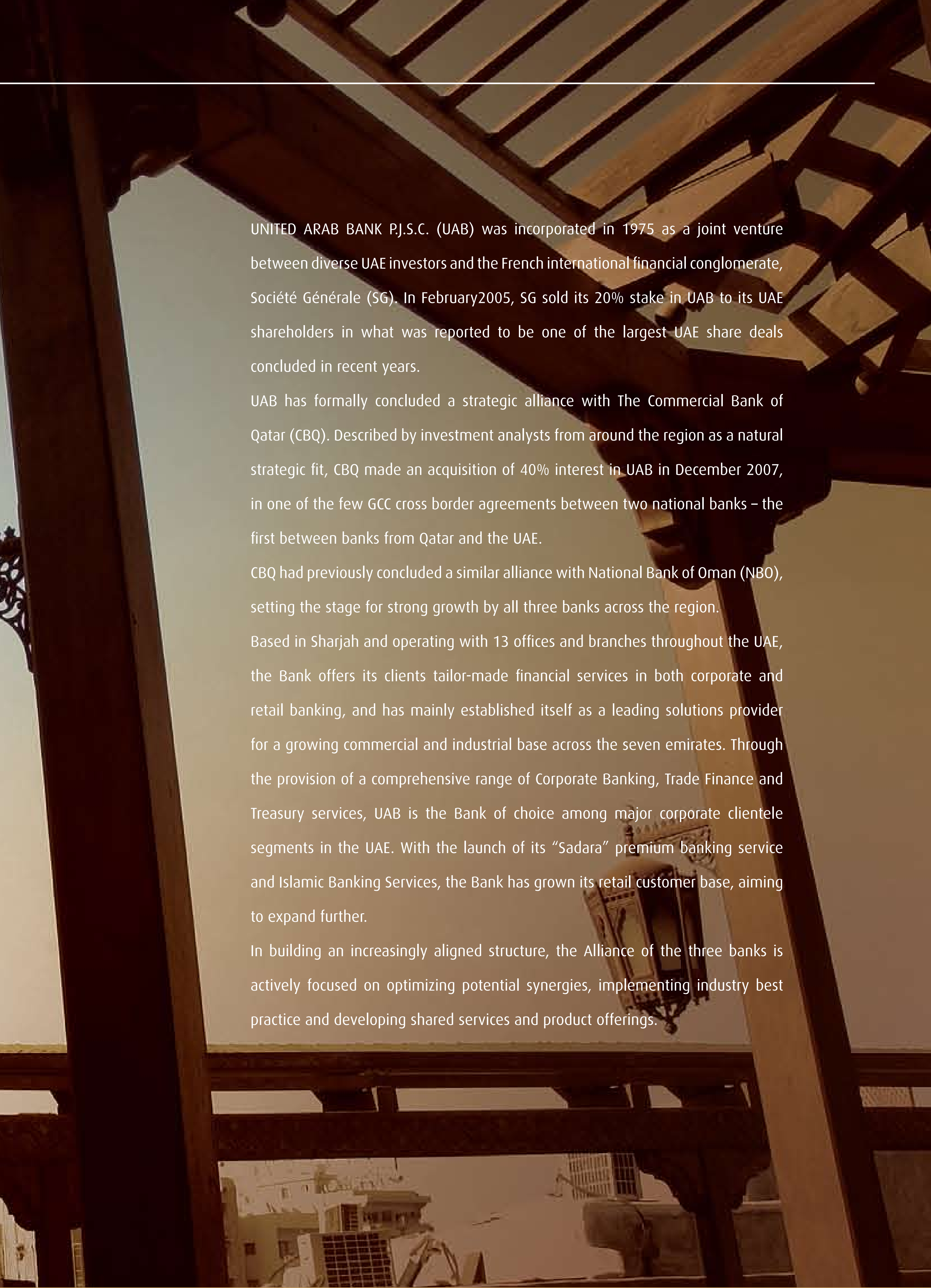
Bede Joseph Pohlen
Executive Vice President
Chief Risk Officer

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

Tom Smith
Executive Vice President
Group Head - Retail Banking

Anthony Macrae
Executive Vice President
Group Head - Business Support

Brian Edward West
Executive Vice President
Chief Financial Officer



UNITED ARAB BANK P.J.S.C. (UAB) was incorporated in 1975 as a joint venture between diverse UAE investors and the French international financial conglomerate, Société Générale (SG). In February2005, SG sold its 20% stake in UAB to its UAE shareholders in what was reported to be one of the largest UAE share deals concluded in recent years.

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

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

Based in Sharjah and operating with 13 offices and branches throughout the UAE, the Bank offers its clients tailor-made financial services in both corporate and retail banking, and has mainly established itself as a leading solutions provider for a growing commercial and industrial base across the seven emirates. Through the provision of a comprehensive range of Corporate Banking, Trade Finance and Treasury services, UAB is the Bank of choice among major corporate clientele segments in the UAE. With the launch of its "Sadara" premium banking service and Islamic Banking Services, the Bank has grown its retail customer base, aiming to expand further.

In building an increasingly aligned structure, the Alliance of the three banks is actively focused on optimizing potential synergies, implementing industry best practice and developing shared services and product offerings.

AWARDS

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

Sheikh Mohamed Bin Faisal Al Qassimi, Board Member, and Mr. Paul Trowbridge, CEO, with the "Bank of the Year 2011 UAE" Award from the Financial Times Banker Magazine of London.

Mr. Paul Trowbridge, CEO, Mr. Shahid Baloch, EVP Corporate Banking and Mr. Tom Smith, EVP Retail Banking with the Best Bank in the UAE Award from Global Banking & Finance Review, London.

Mr. Paul Trowbridge, CEO, receiving the Best Trade Finance House Award from Banker Middle East Industry Awards.

Sheikh Faisal Bin Sultan Bin Salem Al Qassimi, Chairman, Mr. Omar Hussain Al Fardan, Vice Chairman and Sheikh Abdullah Bin Ali Bin Jabor Al Thani, Director with the Best Islamic Credit Card Award for 2011 from VISA International.

Mr. Paul Trowbridge, CEO, receiving the Human Resources Development Award in the Banking and Financial Sector from His Highness Dr. Sheikh Sultan Bin Mohammad Al Qassimi, Member of the UAE Supreme Council and Ruler of Sharjah.

Mr. Paul Trowbridge, CEO, receiving the 2011 Outstanding Achievement Award for the Middle East from Pan Arab Web Awards.

Mr. Tom Smith, EVP and Group Head, Retail Banking receiving the Best Bank of the Year Award from Arab Investment Summit 2011

MANAGEMENT REVIEW

1. Overview

Despite the continuing impact of the global economic crisis, United Arab Bank (UAB) has demonstrated its fundamental strength by reporting record profits of AED 330m for 2011, an increase of 7% over 2010. Operating profit (before loan loss provisions) reached AED 401m in 2011, representing annual growth of 22%. This impressive result was achieved through a targeted and strategic expansion of the balance sheet. Loans and advances increased by 46% to reach AED 8.1 billion as at 31 December 2011, whereas customer deposits grew by 61% from AED 4.9 billion in 2010 to AED 7.8 billion in 2011.

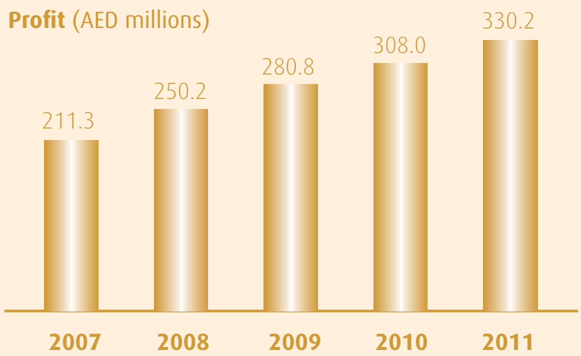
UAB has maintained a prudent approach to provisioning, in line with regulatory guidance, and will continue to tread a careful path between growth and qualitative management of its portfolios. This is reflected in the continuing strength of the key financial ratios. The capital Adequacy Ratio continues to exceed 20% against a regulatory minimum of 12%, and the stable funds ratio is significantly below the maximum limit of 100%. In addition, UAB continues to enjoy superior margins and non-performing loan ratios.

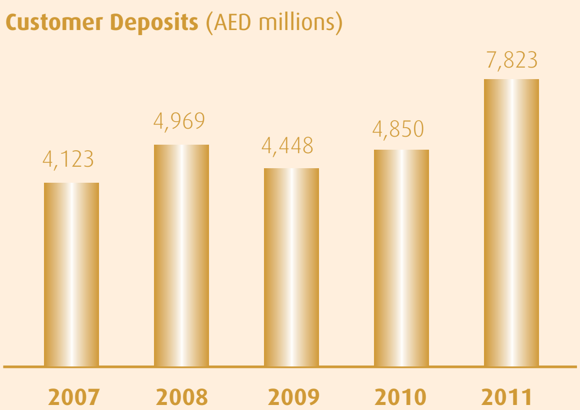
The Bank has continued its branch expansion programme with new branches opened in Sharjah, Ras Al Khaimah and Abu Dhabi, and a number of other branches being prepared for launch in 2012. Furthermore, our customers can enjoy a seamless service experience across the whole network, with Deira Branch being the last to be fully refurbished.

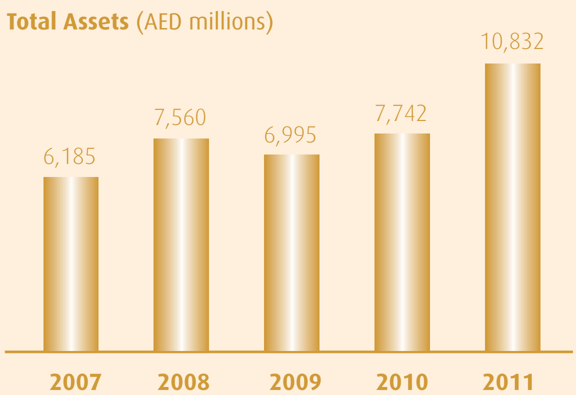
Both Corporate and Retail customers have benefitted from our expanded reach, as reflected in the growth of both business lines. Our delivery channels will be further enhanced in the first quarter of 2012 with the completion of the Core Banking System project, delivered in conjunction with our strategic partner Commercial Bank of Qatar, along with the launch of significantly improved on-line banking services.

The Bank will continue to adopt a strategic approach to its target markets, with further enhancements to its Sadara affluent banking services, as well as providing exceptional service to its preferred corporate markets.

2011 has demonstrated that UAB has the capacity to take advantage of solid business opportunities, despite difficult economic conditions, and has the appetite to become a more active player across the UAE market in close partnership with its key customers.







2. Corporate Banking Group

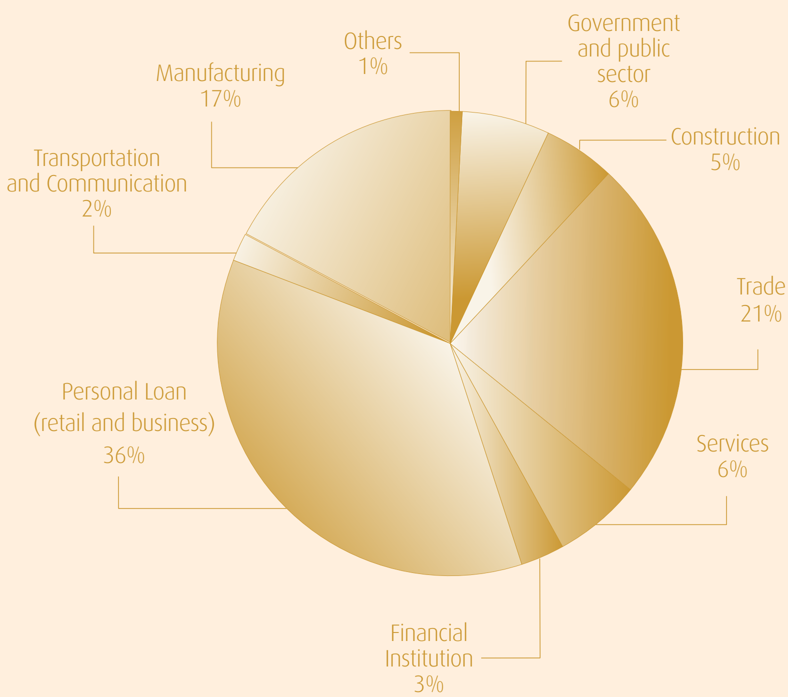
The corporate banking environment in the UAE continues to be challenging and the legacy of the 2008 global financial crisis has been compounded by the adverse sentiment relating to the global sovereign debt crisis, as well as regional and local issues. However, the Corporate Banking Group had taken a number of strategic steps in recent years to rebalance and refocus its portfolio. This provided a stable platform for the corporate loan book to grow by in excess of 30% in 2011, whilst further diversifying its exposure by economic sector. This is reflected by above average growth in the service sector, whilst continuing to focus on historic strengths in trade finance and manufacturing.

By adopting a relationship view of its key corporate customers, the Corporate Banking Group is able to provide superior levels of service, as well as ensuring that the yields on, and the risk profile of, its portfolio both exceed local norms. This approach to working in partnership with our customers provides tangible financial benefit to the Bank's stakeholders, and is also reflected in qualitative measures of performance. For example, UAB was awarded "the Best Trade Finance House" for a second consecutive year by the Banker Middle East Industry Awards, reinforcing our commitment to providing benchmark levels of advice and support to our customers.

Corporate Banking Group selectively participated in a number of major debt transactions in 2011. The successful growth of 2011 has demonstrated UAB's appetite to engage in similar business in 2012, subject to the availability of suitable opportunities in the market.

Mr Shahid Baloch, EVP Corporate Banking and Mr Abdelhamid Ghazouani, EVP, IT, Organisation & Operations. with The Best Trade Finance House Award from Banker Middle East Magazine

Distribution of Loans & Advances by sector



MANAGEMENT REVIEW

3. Retail Banking Group

Since creation of a separate Retail Banking Group in 2009, United Arab Bank has developed into a major retail player in the UAE market. In 2010, UAB Retail grew its Balance Sheet by 46%. This momentum from 2010, coupled with a dynamic product and service program in 2011, gave us the impetus for our ground-breaking performance in 2011 culminating in an increase of over 100% in our retail Balance Sheet with our portfolio now exceeding more than AED 2 billion. This was clearly a major driver in UAB achieving the Bank of the Year 2011, UAE award from The Financial Times Banker Magazine.

UAB's Retail Banking Group managed to exceed several other business objectives during 2011. A well distributed Branch Network and Sadarah Wealth Management proposition ensured an increase of 50% in the conventional retail deposit portfolio. Strong growth in the mortgage portfolio enabled UAB to disburse in excess of AED 500 million during 2011, making UAB the leading local bank in the country. UAB is also one of the few banks that extend mortgage facilities across all Emirates in the UAE.

The continued business growth is supported by the launch of three new branches during the year, at Sharjah Industrial Area, Ras Al Khaimah (Dahan) and at Abu Dhabi Airport Road. This helped UAB expand its footprint and achieve higher distribution across the Emirates, and this is projected to continue in 2012 with the opening of several new branches to meet the rapidly evolving expectations of our valued customers.

Mr. Paul Trowbridge, CEO, Mr Tom Smith, EVP, Head of Retail Banking, Sheikh Mohamed Al Nuaimi, Head of Sadara Wealth Management and Mr Rami Joudah, Head of Branches and Islamic Banking at the launch of the new mortgage campaign.

Mr Paul Trowbridge, CEO and Mr Tom Smith, EVP, Head of Retail Banking with the management of RAK Properties at the signing of an agreement for Home Finance. Sheikh Mohamed Al Nuaimi, Head of Sadara Wealth Management and Mr Dilip Samudaran, Head of Sales were also present at the ceremony.

Fabio Cannavaro, UAB's Brand Ambassador with Mr Awni Alami, Deputy CEO, Mr. Tom Smith, EVP and Mr. Rami Joudah, Head of Branches at a branch launch event.

Sadara Lounge at Sheikh Zayed Road branch in Dubai.

3. Retail Banking Group continued

2011 also witnessed a number of exciting product and service innovations. A Sharia'h compliant Ijara Mortgage was launched to further enhance the Islamic Banking offering and to complement the conventional mortgage proposition launched in 2010. Our Sadarah offering was enhanced by the introduction of investment products from Zurich International, which opens a new and attractive fee-based income stream for the Bank. In collaboration with the Abu Dhabi Food Authority, UAB launched a Farm Loan product, aimed specifically at supporting farmers in the UAE and encouraging the development of agriculture in the region. Our distribution channels were enhanced by the launch of a 24/7 Contact Centre to extend the availability of services, and by the upgrading of all ATMs to accept cheque and cash deposit, thus ensuring a more efficient and cost-effective service offering to our customers.

Other developments include the introduction of a customer-relationship based collections strategy coupled with implementation of a new collection system. This has enabled real time allocation of cases and monitoring of collection performance on a daily basis. This, in turn, has resulted in lower NPLs, lower provisions and lower loss rates thereby enhancing the Bank's profitability.

UAB's continued focus on bringing world class retail products and services to its customers was recognized by the industry. We were the recipient of the Visa International award for introducing the First Vertical Islamic Card in the Middle East. The Banker Web Ranking Committee also recognized UAB as having the Best Retail Website in the UAE.

Going forward, Retail Banking Group will continue its focus on building deeper relationships with customers and aims to be a comprehensive financial solution provider for all its target segments. Accordingly, the Retail Group will continue to be a key contributor to UAB's profitability in 2012.

UAB's first ever bridge banner on Sheikh Zayed Road in Dubai.


UAB's Brand Ambassador Fabio Cannavaro kicking off a new branch launch.

Outside view of the newly-opened branch in Ras Al Khaimah, in the Dehan area.

UAB's new-look ATMs.

4. Treasury and Capital Markets

2011 provided a new level of challenge for the Treasury and Capital Markets team. The business growth of the Corporate and Retail Banking Groups could only be achieved if suitable volumes of appropriately priced funds were available. The record levels of funding required by the business groups were efficiently managed, despite previously unprecedented levels of funding stress in international markets, even if local markets were somewhat more liquid. These funding needs were adequately met, whilst maintaining a close eye on regulatory ratios as well as respecting internal policies to manage3 funding gaps and diversification parameters. Judicious use of the interbank money market was complemented by the management of a growing portfolio of institutional depositors.

The year-end Loan to Stable Funds ratio was well below 90%, although the regulatory limit is 100%, and other liquidity ratios were effectively managed. The Bank's stakeholders will recognize that UAB's net interest margin continues to exceed 5%, well in excess of the average for the UAE banking sector and significantly above international norms.

UAB's funding base continues to be well diversified, across institutional, Islamic and conventional customer deposits, and further initiatives are in place to extend the average tenor of the Bank's funds, without compromising on the average cost of funds.

The Treasury continues to provide FX trading opportunities to corporate clients and high net worth individuals. It also offers a range of derivative and investment products to meet the need and risk appetite as appropriate to each customer.

An important element of the Treasury function is the management of the Bank's proprietary investment portfolio. The Bank holds an available for sale portfolio of around AED 600 million, representing around 6% of total earning assets. The Bank adopts a conservative approach to its investment strategy and the vast majority of the exposure comprises government, semi-government and corporate bonds and Sukuks issued within the GCC. The valuation of the investment portfolio has continued to improve throughout 2011.

5. Risk Management

Risk Management continues to be a key focus of the Bank; prudent risk management has ensured that no exposures with substantial risk elements have been booked. The Bank continuously strengthens risk management policies and processes, investing in technology to upgrade its overall risk management framework.

The Risk Management Group is headed by the Chief Risk Officer who reports to the Chief Executive Officer. The Risk Management Group is comprised of the following specialist departments; Corporate Credit Risk; Corporate Special Assets; Retail Credit Risk; Retail Collections and Recovery; Corporate Governance; and Legal.

The Board has the overall responsibility for oversight of the Bank's risk management framework. The Board has established an Asset and Liability Committee (ALCO), General Management Risk Committee (GMRC), General Management Credit Committee (GMCC), Board Credit Committee (BCC), and Board Audit & Risk Committee (BARC). These committees meet regularly to ensure that the Bank is adhering to the highest risk standards and are responsible for developing and monitoring the Bank's risk management policies in each of their specified areas.

The Bank's risk management processes and its comprehensive policies and procedures are designed to provide effective oversight, identification, measurement, accountability, mitigation and reporting of various types of risk, the allocation of adequate capital against those risks, and a balanced risk-reward approach to relationships and business opportunities.

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

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

Section 23 of the Notes 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. Risk Management continued

Operational Risk

The Bank defines Operational Risk as the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Bank has detailed policies and procedures that are regularly updated to ensure that a sound internal control environmental exists throughout the Bank. The Bank has closely reviewed the various recommendations issued by the 'Basel Committee on Sound Practices for the Management and Supervision of Operational Risk' for implementation, and where appropriate, has affected the necessary changes.

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

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

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

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

Compliance

The Compliance Function of the Bank is responsible for managing regulatory risk. The Bank is regulated by the Central Bank of the UAE and has a number of regulatory obligations to meet. The Bank has regular meetings with the Central Bank in order to ensure that the Central bank has a clear understanding of the Bank's activities and strategic direction. This understanding helps to ensure that the Bank operates within both the letter and the spirit of its regulatory requirements and reduces the risk of inadvertently breaching its regulatory requirements. One of these is the requirement to establish processes and procedures designed to minimize the risk of the Bank's systems, and accounts being used for laundering the proceeds of crime or being used to finance terrorist activities. The Bank's processes and procedures include the requirement to identify suspicious transactions and report them, where appropriate, to the Central Bank's Anti Money Laundering and Suspicious Cases Unit.

Corporate Governance

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

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

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

Board and Board Committees Structure

The following illustrates the make-up of the Board of Directors and the Committees of the Board of Directors.

Board of Directors
12 Members comprising:

7 Independent Members
12 Non-Executive Members

Board Audit & Risk Committee
4 Members comprising:

2 Independent Members
4 Non-Executive Members

Board Credit Committee & Banks Financial Institutions Committee (BCC)
7 Members comprising:

4 Independent Members
7 Non-Executive Members

Board Executive Committee
4 Members comprising:

2 Independent Members
4 Non-Executive Members

UAB has a Corporate Governance Policy which has been approved through the BARC.

6. Operations & Information Technology

UAB has taken a number of strategic decisions regarding its operational and technology business model, and these have been implemented progressively through 2010, 2011 and into 2012. The key objectives are to provide the best in class service to our target customers, in a cost-effective manner through a platform which is scalable and adaptable to anticipated changes in volumes, markets and products.

One key element of this approach is UAB's decision to centralize and outsource appropriate operations functions. During 2011, the programme of centralizing operational activities from the branches to the processing centers was largely completed resulting in continued improvements to customer servicing time whilst utilizing internal resources more efficiently. In the latter part of 2011, many of the operational functions have been seamlessly migrated to an off-shore operations centre, to achieve further economies of scale and position the Bank to provide an even wider range of services and products to our customers.

These changes to our operating processes have been complemented by developments in UAB's technology platform. In accordance with the technology strategy of our Alliance partners (Commercial Bank of Qatar and National Bank of Oman), the Bank is implementing a new core banking system. This will be a valuable tool to further optimize UAB's operational and commercial capabilities. Implementation will also facilitate a closer alignment to the Alliance banks' technology platforms, leading to further synergies and cost effectiveness.

Customers will also see enhancements to our alternative delivery channels, as the Bank implements a full fledged e-banking solution, and makes further improvements to its call centre services and activities.

This ambitious and comprehensive programme is intended to meet the changing needs of our expanding portfolio of customers, both efficiently and economically.

Mr. Abdelhamid Ghazouani, EVP IT, Organisation & Operations receiving an Award from Newgen for the long-term customer relationship and professional management and implementation of the the UAE Central Bank's ICCS Application from Newgen.

Mr Abdelhamid Ghazouani, EVP IT, Organisation & Operations signing an MOU with Misys Systems for UAB's new Core Banking System. Mr. Paul Trowbridge, CEO, Mr. Awni Alami, Deputy CEO, Mr. Bede Pohlen, EVP Risk Management and Mr. Tom Smith, EVP Retail Banking were also present.

7. Human Resources

The Human Resource Management function is a key element of the Bank's strategic growth, and proactively contributes to establishing a competitive advantage in the markets that UAB serves.

UAB's Emiratization Programme, Al Tamayouz, continues to be cornerstone of the Bank's strategic development. The Programme has delivered excellent results in 2011, with the percentage of UAE National employees increasing from 39% to 41% in 2011. This initiative carefully manages individuals through a development plan encompassing internship opportunities, student sponsorship and full-time career advancement.

UAB also actively participates in various career days, exhibitions and panel discussions. During the year, UAB was a key contributor to the annual Sharjah Career Exhibition organized by the HRD Committee for the Banking and Financial Sector. In addition, the Bank had the opportunity to present itself as an employer of choice at events conducted at Zayed University and the Higher Colleges of Technology, as well as sponsoring several events at these and other higher education establishments.

Performance management and organizational culture are key areas of focus for the Human Resource function. The success of such initiatives is reflected in the overall business results and reinforced by measures such as employee turnover and staff satisfaction, which continue to improve year-on-year. Attention to the needs of current and potential target customers is the primary driver of employee behavior, and this focus on the external customer is reinforced by all levels of management and staff.

UAB uses a range of developmental programmes to address current gaps in skill sets or to anticipate future needs. The training calendar is developed on a needs-based approach, top-down and bottom-up, and includes on-the-job, in-house and external programs covering both functional and behavioral requirements. Functional courses conducted in 2011 addressed such diverse topics as credit risk analysis, contract financing, Islamic banking, insurance, operational risk management and anti-money laundering.

UAB's pavilion at the Annual Career Fair.

His Highness Dr. Sheikh Sultan Bin Mohammad Al Qassimi, Member of the UAE Supreme Council and Ruler of Sharjah at the UAB pavilion at the Annual Career Fair with Mr. Awni Alami, Deputy CEO and senior executives of the bank.

8. Premises

2011 witnessed the ongoing execution of UAB's branch expansion plan, including the completion of a second branch in Abu Dhabi which also contains the new Corporate Banking Group regional office. A second branch was also launched in the Dahan area of Ras Al Khaimah. Sharjah's Al Wahda branch was relocated to improved premises in King Faisal Street and refurbishments were completed in branches in Al Ain, Ajman and Ras Al Khaimah. These activities, along with the ongoing expansion of our off-site ATM network, all serve to strengthen UAB's customer appeal through wider reaching and more attractive premises.

At least six new branches are being prepared for launch in 2012, half of which are located in various high profile areas of Abu Dhabi. This methodical expansion, coupled with the increasing ATM footprint, demonstrates the UAB's focus on its target market of UAE Nationals and committed expatriates. The branch network will continue to develop, both geographically and qualitatively, serving to reinforce UAB's status as a respected institution responsive to the developing needs of our premium customers.

UAB's branches offer a full range of consumer and business banking services including 24 hour ATM services and dedicated Sadarah lounges with resident Relationship Managers. This approach, coupled with the branch expansion plan, allows customers to conduct their activities through the location of their choice, and brings the full range of UAB's services closer to the customer.

UAB continues to strengthen its premises portfolio by acquiring a mid-rise residential building in Sharjah, along with a commercial tower in Sharjah's Buhairah Corniche which is intended to house UAB's new Head Office. Both premises are targeted to provide returns from 2012.

UAB's Ajman branch upon reopening after undergoing complete refurbishment.

Refurbished Ajman branch being inaugurated by HE Sheikh Abdul Aziz Bin Humaid Al Nuaimi.

UAB's second branch at Ras Al Khaimah (Dehan) being inaugurated by HE Sheikh Mohammed Bin Saud Al Qasimi, Crown Prince of the Emirate of Ras Al Khaimah.

Newly- opened branch at King Faisal Street, Sharjah upon relocation of Al Wahda Street branch.

9. Community Services

UAB is a staunch believer in giving back to the community. 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 the exclusive sponsor of all the Programme Training sessions, the purpose of which is to induct special-needs citizens into the local community by developing their interpersonal and professional skills, and by offering employment opportunities within the Bank.

UAB also collaborates with Al Thiqah in several other areas, sponsoring key events and activities organized by the Club. Such activities reinforce UAB's commitment to contribute to the development of the local community and to make an appreciable difference to its citizens.

Mr. Paul Trowbridge, CEO and Fabio Cannavaro, UAB's brand ambassador, encouraging football enthusiasts at a branch launch event.

Mr Paul Trowbridge, CEO, Mr. Awni Alami, Deputy CEO, Mr Anthony Macrae, EVP General Internal Services and other senior UAB executives with the Human Resources Development Award received for achieving 41% Emiratisation level in 2011.

United Arab Bank sponsored the Sailing Arabia 2011 event in the UAE. Mr. Paul Trowbridge CEO and Mr. Tom Smith, EVP, Group Head of Retail Banking with the Sailing Arabia team sponsored by UAB's strategic partner Commercial Bank of Qatar.

UAB's pavilion at the Annual Career Fair for Emiratis in Sharjah.

10. Acknowledgments

The management of the bank would like to acknowledge the unstinting support of the Chairman, Deputy Chairman and members of the Board of Directors, and to express their gratitude for the guidance and leadership that encourages the Bank to implement its ambitious programme of strategic development. This is reflected in the high esteem and respect commanded by the name, United Arab Bank.

The Bank would also like to recognize the continued support provided by the Governor and staff of the Central Bank of the UAE and the Minister and staff of Finance. Their guidance and direction has helped the local financial sector to meet the ongoing challenges provided by the wider environment.

We would like to thank our valued customers for their patronage, in addition to our shareholder, correspondents and other stakeholders.

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

Paul Trowbridge
Chief Executive Officer

DIRECTORS' REPORT
Year ended 31st December 2011

On behalf of the Board of Directors of United Arab Bank, it gives me great pleasure to present the Annual Report for the year ended 31 December 2011.

2011 has been a landmark year in global economic terms. In 2010, many economic commentators believed that the global financial crisis that had its origins in late 2008 was beginning to subside. However, the European Sovereign debt crisis of 2011 has raised the fear of a "double-dip" recession and has ramifications far beyond the borders of the European Union, particularly on the cost of borrowing and availability of funding across the globe. Similarly, the budget deficit in the United States may still require action that will have a knock on effect on global economic growth.

The Middle East in general and the UAE in particular, are not isolated from these challenges. International trade dictates that economic issues in one part of the world will have an impact elsewhere. Importantly, the availability of finance is being restricted by the existence of adverse credit exposures across the financial community, compounded by the responses required by international governments and regulators to the perceived threat to future capital.

External factors played a significant part in limiting the growth of the UAE banking sector as a whole in 2011. However, UAB was uniquely placed to meet these challenges. The Bank started the year with a high-quality asset base, whilst enjoying market leading returns and margins in 2010. Implementation of a new strategy in partnership with our strategic alliance leader Commercial Bank of Qatar, was beginning to have impact, particularly in the retail banking arena. This provided us with the platform to play a much more active role in the market, with the aim of increasing our market share. The Bank has remained focused on attracting new customers to UAB, by offering market-leading products supported by a commitment to exceptional service.

The results for the twelve months ended 31 December 2011 confirm these efforts. The Net Profit of AED 330 million is a new record for UAB. The Operating Profit before loan loss provisions exceeded AED 400 million, representing a 22% increase over 2010. The foundation for these results is the impressive growth in UAB's customer base. Loans and advances, including Shariah-compliant assets, increased by 46% to AED 8.06 billion as at 31 December 2011. Customers' deposits were at AED 7.82 billion, a reflection of the confidence and trust placed in UAB by our loyal customers.

Perhaps more important than the increase in the balance sheet is UAB's ongoing commitment to the quality of its assets, and its duty to provide sustainable returns to its shareholders. At the end of 2011 only 1.6% of total loans are non-performing compared with 3.2% in 2010. This is after compliance with new regulations from the UAE Central Bank on the classification of loan assets and provisioning of potential losses. UAB has been able to maintain its margins and cost of funds at similar rates to 2010, and provide returns to shareholders of 17%. From a regulatory perspective, the Advances to Stable Resources Ratio is 87%, significantly below the cap of 100%, and the Capital Adequacy Ratio continues to exceed 20%, well above the Central Bank required minimum of 12%.

UAB is well-positioned to meet the challenges of 2012. The Board of Directors proposes the following appropriations of profit for the year ended 31 December 2011, subject to the approval of the Central Bank:

	AED '000
Opening balance in Retained Earnings at 1 January	322,092
Profit for the year	330,154
Transfer from Revaluation Reserve	1,176
Dividend paid relating to 2010	(159,424)
Balance available for appropriation	**493,998**
Proposed Appropriation of profit	
Transfer to Special Reserve	33,015
Transfer to Statutory Reserve	33,015
Directors' Remuneration	3,600
Closing balance in Retained Earnings at 31 December	**24,368**

The Directors propose that a cash dividend of 20% of the Paid up Capital is paid in 2012, amounting to AED 199.28 million, subject to the approval of the Central Bank and the General Assembly.

DIRECTORS' REPORT
Year ended 31st December 2011

After the proposed appropriation of profit, and subject to the General Assembly's approval, total Shareholders' Funds will increase to AED 2.031 billion at 31 December 2011 compared with AED 1.848 billion at the end of 2010.

We believe that 2011 will be remembered as a turning point in UAB's strategic development. The benefits of the strategic partnership with the Commercial Bank of Qatar have become clear to our customers and other stakeholders. Initiatives launched in prior years have provided tangible financial benefit to the Bank, whilst expanding and improving the range of products and services available to our valued customers. UAB has also implemented steps that have improved its technology platform, reduced costs and enhanced its capability to mitigate risks.

We have continued to develop our Sadara Wealth Management program and ensure that we have the appropriate personnel and facilities to meet our customers' service needs. Products launched in 2010, such as UAB's mortgage offering, have helped to re-position the Bank at the forefront of the consumer's mind and have delivered increased business volumes in 2011. Other products such as Auto Loans and Business Loans ensure that we provide a full suite of offerings complemented by a similar range of Shariah-compliant Islamic products. Our customers have a far more extensive range of touch-points to access UAB's products and services. New branches were opened in Sharjah, Ras al Khaimah and Abu Dhabi and several others are due to be opened in 2012. The Bank launched a 24/7 Contact Centre in 2011 and a new version of secure and versatile Internet Banking service will be launched in early 2012.

The cumulative effect of these initiatives is that the Bank's retail and Islamic business volumes grew by over 85% in 2011, with the portfolio exceeding AED 2 billion. This momentum is expected to continue into 2012 and demonstrates successful delivery of our strategic programme.

UAB's core activity has traditionally been commercial and corporate business. Corporate loans exceeded AED 6 billion in 2011, an increase of 33% (AED 1.5 billion) over 2010. Asset quality remains paramount, and the charge for corporate loan losses was negligible in 2011. UAB was awarded Best Trade Finance House again in 2011 and we strive to provide unparalleled levels of service and commitment to relationship management.

Significant improvements were also made to many of our business support functions in 2011. Our risk management functions continue to be re-aligned to the changing profile of our customer base. Transaction processing will be performed under the highest standards of control and efficiency as a result of initiatives to implement a new core banking system and to outsource many operational processes to a well-renowned third party.

Our commitment to our people, and particularly to our UAE National employees, remains strong. By the end of December 2011, 41% of our total employees were UAE Nationals. UAB has an organized programme of internal and external training initiatives to ensure that skills are developed and competencies meet the needs of the business.

UAB was also honoured to receive recognition from the Financial Times of the United Kingdom as the "Bank of the Year" in the UAE for 2011. This is an outstanding achievement that brings credit to all members of the management and staff of UAB. My sincere thanks go to all concerned for their ongoing loyalty and professionalism.

I would also like to record, on behalf of the Board of Directors, my appreciation for the continued guidance and strategic input from the Commercial Bank of Qatar. The success of 2011 allows us to look forward jointly with confidence to the undoubted challenges of 2012.

Faisal Bin Sultan Bin Salem Al Qassimi
Chairman
24 January 2012

Report on the Financial Statements
We have audited the accompanying financial statements of United Arab Bank P.J.S.C. ('the Bank'), which comprise the statement of financial position as at 31 December 2011, and the income statement, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

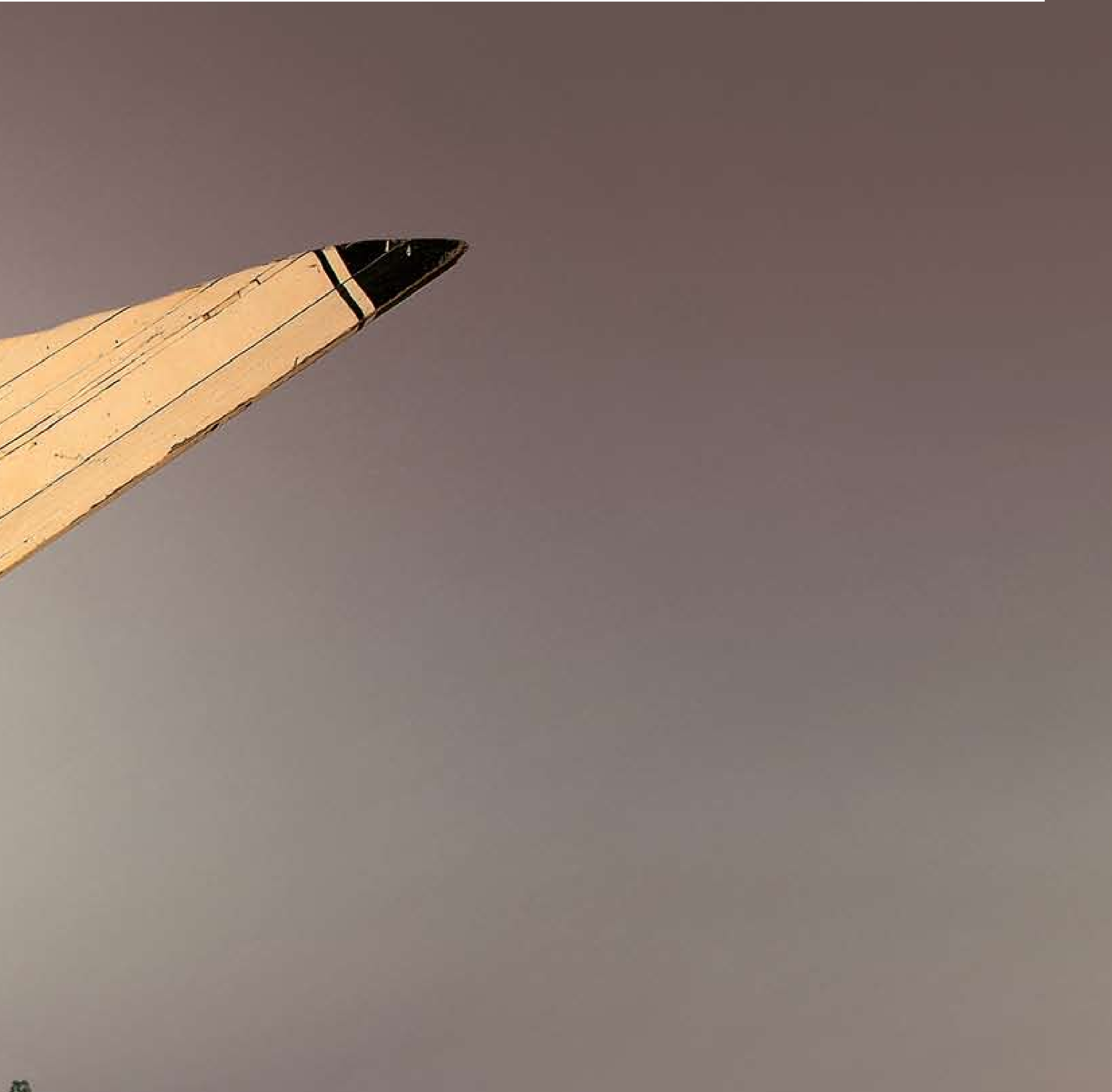
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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 financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

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

Signed by:
Ali H. Issa
Partner
Registration No. 488
24 January 2012
Sharjah, United Arab Emirates



INCOME STATEMENT
Year ended 31 December 2011

	Notes	2011 AED'000	2010 AED'000
Interest and similar income	4	**509,968**	412,070
Interest and similar expenses	5	**(76,108)**	(60,797)
NET INTEREST INCOME		**433,860**	351,273
Income from Islamic financing and investing assets		**10,778**	3,497
Distribution to depositors		**(13,260)**	(7,991)
Net interest income and income from Islamic financing and investing assets net of distribution to depositors		**431,378**	346,779
Net fees and commission income		**77,742**	70,131
Gains less losses arising from dealing in foreign currencies		**30,983**	30,561
Other operating income	6	**41,391**	42,750
TOTAL OPERATING INCOME		**581,494**	490,221
Provision for credit losses	7	**(70,534)**	(19,298)
NET OPERATING INCOME		**510,960**	470,923
Personnel expenses		**(126,977)**	(116,292)
Depreciation on property and equipment	8	**(11,070)**	(9,076)
Other operating expenses		**(42,759)**	(37,554)
TOTAL OPERATING EXPENSES		**(180,806)**	(162,922)
PROFIT FOR THE YEAR		**330,154**	308,001
BASIC AND DILUTED EARNINGS PER SHARE	9	**AED 0.33**	AED 0.31

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

STATEMENT OF COMPREHENSIVE INCOME
Year ended 31 December 2011

	Notes	**2011** **AED'000**	2010 AED'000
Profit for the year		**330,154**	308,001
Other comprehensive income			
Net unrealised gain on available for sale investments	19	**8,598**	22,086
Reversal of loss on sale of available for sale investments	19	**4,530**	48
Reversal of loss on redemption of available for sale investments	19	**3,624**	6,314
Unrealised loss on cash flow hedges	19	**(816)**	-
Total comprehensive income for the year		**346,090**	0336,449

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

STATEMENT OF FINANCIAL POSITION
At 31 December 2011

	Notes	2011 AED'000	2010 AED'000
ASSETS			
Cash and balances with UAE Central Bank	10	**548,594**	383,856
Due from banks	11	**1,468,301**	1,206,855
Loans and advances	7	**7,843,753**	5,497,482
Islamic financing and investing assets	12	**212,548**	34,226
Investments	13	**595,663**	512,340
Property and equipment	8	**106,155**	73,253
Other assets	14	**57,081**	34,057
TOTAL ASSETS		**10,832,095**	7,742,069
LIABILITIES AND SHAREHOLDERS' FUNDS			
LIABILITIES			
Due to banks		**870,523**	948,888
Customers' deposits	15	**7,343,110**	4,258,551
Islamic customers' deposits	16	**480,319**	591,615
Other liabilities	17	**107,118**	95,056
TOTAL LIABILITIES		**8,801,070**	5,894,110
SHAREHOLDERS' FUNDS			
Share capital	18	**996,401**	996,401
Special reserve	18	**255,888**	222,873
Statutory reserve	18	**338,443**	305,428
General reserve	18	**9,311**	9,311
Revaluation reserve	18	**21,671**	22,847
Retained earnings		**424,368**	322,092
Cumulative changes in fair values	19	**(15,057)**	(30,993)
TOTAL SHAREHOLDERS' FUNDS		**2,031,025**	1,847,959
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		**10,832,095**	7,742,069

The financial statements were approved by the Board of Directors on 24 January 2012 and signed on its behalf by:

....
Sheikh Faisal Bin Sultan Bin Salem Al Qassimi
(Chairman)

....
Paul Trowbridge
(Chief Executive Officer)

STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 AED'000	2010 AED'000
OPERATING ACTIVITIES			
Profit for the year		**330,154**	308,001
Items not involving cash flow:			
Depreciation	8	**11,070**	9,076
Provision for credit losses	7	**70,534**	19,298
Items considered separately:			
Net gain on sale of available for sale investments		**(941)**	(193)
Loss on disposal of property and equipment		**41**	-
Changes in operating assets and liabilities:			
Loans and advances		**(2,416,805)**	(743,283)
Islamic financing and investing assets		**(178,322)**	(34,226)
Due from Central Bank		**(44,835)**	(2,310)
Cash margin held by counterparty banks against borrowings and derivative transactions	11	**322,058**	(333,564)
Other assets		**(23,024)**	(5,098)
Due to banks maturing after three months		**9,023**	262,400
Customers' deposits	15	**3,084,559**	(189,601)
Islamic customers' deposits	16	**(111,296)**	591,615
Other liabilities	17	**12,062**	(40,119)
Net cash from (used in) operating activities		**1,064,278**	(158,004)
INVESTING ACTIVITIES			
Purchase of property and equipment	8	**(44,042)**	(19,394)
Proceeds from disposal of property and equipment		**29**	-
Purchase of non trading investments		**(328,279)**	(113,148)
Redemption / sale of non trading investments		**261,833**	68,758
Net cash used in investing activities		**(110,459)**	(63,784)
FINANCING ACTIVITIES			
Directors' remuneration		**(3,600)**	(1,800)
Cash dividends paid		**(159,424)**	(149,460)
Net cash used in financing activities		**(163,024)**	(151,260)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**790,795**	(373,048)
Cash and cash equivalents at 1 January		**452,828**	825,876
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		**1,243,623**	452,828
CASH AND CASH EQUIVALENTS:			
Cash and balances with UAE Central Bank		**189,266**	69,363
Due from banks maturing within three months		**1,456,795**	873,291
Due to banks maturing within three months		**(402,438)**	(489,826)
		1,243,623	452,828
Operational cash flows from interest and dividend			
Interest and profit paid		**82,847**	65,821
Interest and profit received		**511,772**	407,744

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

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

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

	Share capital AED'000 (Note 18a)	Special reserve AED'000 (Note 18b)	Statutory reserve AED'000 (Note 18c)	Proposed cash dividend AED'000 (Note 18d)	General reserve AED'000 (Note 18e)	Revaluation reserve AED'000 (Note 18f)	Retained earnings AED'000	Cumulative changes in fair values AED'000 (Note 21)	Total AED'000
At 1 January 2010	996,401	192,073	274,628	149,460	9,311	24,025	76,313	(59,441)	1,662,770
Profit for the year	-	-	-	-	-	-	308,001	-	308,001
Other comprehensive income for the year	-	-	-	-	-	-	-	28,448	28,448
Total comprehensive income for the year	-	-	-	-	-	-	308,001	28,448	336,449
Depreciation transfer for land and building	-	-	-	-	-	(1,178)	1,178	-	-
Dividend paid	-	-	-	(149,460)	-	-	-	-	(149,460)
Directors' remuneration	-	-	-	-	-	-	(1,800)	-	(1,800)
Transfer to special reserve	-	30,800	-	-	-	-	(30,800)	-	-
Transfer to statutory reserve	-	-	30,800	-	-	-	(30,800)	-	-
At 31 December 2010	**996,401**	**222,873**	**305,428**	**-**	**9,311**	**22,847**	**322,092**	**(30,993)**	**1,847,959**

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2011

1 INCORPORATION AND ACTIVITIES

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

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

2 BASIS OF PREPARATION

Accounting convention

The 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, and land and buildings. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

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

Statement of compliance

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

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended

- IFRS and IFRIC interpretations effective as of 1 January 2011:
- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment)

The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

IAS 32 Financial Instruments: Presentation (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Bank because the Bank does not have these types of instruments.

2 BASIS OF PREPARATION (continued)

New and amended standards and interpretations (continued)

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Bank is not subject to minimum funding requirements, therefore the amendment of the interpretation has no effect on the financial position nor performance of the Bank.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Bank.

IFRS 3 Business Combinations

The measurement options available for non-controlling interest (NCI) were amended. Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments to IFRS 3 are effective for annual periods beginning on or after 1 July 2011 and are not expected to have any impact on the financial position or performance of the Bank.

IFRS 7 Financial Instruments Disclosures

The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context. The adoption of the amendment did not result in material changes to the disclosures required by the Bank.

IAS 1 Presentation of Financial Statements

The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Bank provides this analysis in Note 19.

Other amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Bank:

- *IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008)*
- *IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)*
- *IAS 27 Consolidated and Separate Financial Statements*
- *IAS 34 Interim Financial Statements*

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Bank:

- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

2 BASIS OF PREPARATION (continued)

Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The listing of standards and interpretations issued are those that the Bank reasonably expects to have impact on disclosures, financial position or performance when applied in the future date. The Bank intends to adopt these standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and with no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and are not expected to have any material impact on the financial position or performance of the Bank.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard shall become effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Bank's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Bank will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation - Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

2 BASIS OF PREPARATION (continued)

Standards issued but not yet effective (continued)

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method.

This standard becomes effective for annual periods beginning on or after 1 January 2013 and the application of this new standard is not expected to impact the financial position of the Bank.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2.1 Significant management judgements and estimates

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

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 Bank has the intention and ability to hold these to maturity.

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

All other investments are classified as available for sale.

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank 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 Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

2 BASIS OF PREPARATION (continued)

2.1 Significant management judgements and estimates (continued)

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 are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more details in Note 25.

Impairment of investments

The Bank treats held to maturity and available for sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that the loss event (or events) has an impact on the estimated future cash flows that can be reliably estimated. The determination of what is "significant" or "prolonged" requires considerable judgment. The Bank 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 Bank 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 income statement. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about the probability of default and probable losses in the event of default, the value of the underlying security, and realisation costs. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the provisions.

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

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

2.2 Definitions

The following terms are used in the financial statements with the meaning specified:

Sharia'a

Sharia'a is the body of Islamic law and is essentially derived from The Quran and The Sunna'h.

Murabaha

Murabaha is an agreement whereby the Bank sells to a customer an asset which the Bank has purchased based on a promise received from the customer to buy the asset purchased according to specific terms and conditions. The selling price comprises the cost of the asset and an agreed profit margin.

Tawarruq

An arrangement that involves a purchase of an asset based on Musawamah (price agreed through bargaining) or Murabaha and a subsequent sale of the same asset to a third party for cash in order to gain cash money.

2 BASIS OF PREPARATION (continued)

2.2 Definitions (continued)

Ijarah
An agreement between the Bank (mu'ajjir) with customers (musta'jir) whereby the Bank makes available to the customer the use of service of assets/equipments such as plant, motor vehicles, etc for a fixed period and price.

Wakala
An agreement whereby the Bank provides a certain sum of money to an agent, who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

3 SIGNIFICANT ACCOUNTING POLICIES

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

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

The accounting policies adopted by the Bank relating to measurement and revenue recognition for products and its operations relating to the Islamic banking window are as below:

Murabaha, Tawarruq & Ijarah financings
Murabaha, Tawarruq and Ijarah products are measured at amortised cost and income thereon is recognised on a time-apportioned basis over the period of the contract based on the principal amount outstanding.

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.

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Islamic financing and investing assets

Islamic financing and investing assets consist of Murabaha, Tawarruq and Ijarah receivables.

Islamic financing and investing assets are stated at amortised cost less any provisions for impairment and deferred income.

Allocation of profits

Allocation of profit between the depositors and the shareholders is calculated according to the bank's standard procedures and is approved by the bank's Sharia'a Supervisory Board.

Trading investments

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

Non – trading investments

Non – trading investments are classified as follows:

- Held to maturity
- Available for sale

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

Held to maturity

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

Available for sale

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities

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

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

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

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

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

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

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

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

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.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment (continued)

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

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 income statement in the year the asset is derecognised.

Deposits

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

Employees' end of service benefits

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

The Bank 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 Bank 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 Income Statement net of any reimbursement.

Financial guarantees

In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements at fair value, in 'Other liabilities', being the premium received. Subsequent to initial recognition, the Bank'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 income statement in 'Provision for credit losses'. The premium received is recognised in the income statement in 'Net fees and commission income' on a straight line basis over the life of the guarantee.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

Derivatives

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

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

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

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

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

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

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

Certain derivative transactions, while providing effective economic hedges under the Bank'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 income statement. These embedded derivatives are measured at fair value with the changes in fair value recognised in the income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets

The Bank 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.

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 bank 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 Bank 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 income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of 'Interest and similar income'. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Credit loss expense'.

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

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

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

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment and uncollectibility of financial assets (continued)

(ii) Available-for-sale financial investments

For available-for-sale financial investments, the Bank assesses at each statement of financial position date whether there is objective evidence that an investment is impaired.

In the case of debt instruments classified as available-for-sale, the Bank assesses individually whether there is objective evidence of impairment 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 income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of Interest and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The determination of what is "significant" or "prolonged" requires considerable judgement. Where 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 income statement - is removed from other comprehensive income and recognised in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognised directly in other comprehensive income.

(iii) Renegotiated loans

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

Impairment of non-financial assets

The Bank 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 Bank 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 Bank 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 income statement.

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Bank 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 Bank 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 middle market rates of exchange ruling at the balance sheet date. Any resultant gains and losses are taken to the income statement.

Segment reporting
The Bank's segmental reporting is based on the following operating segments: Retail banking, Corporate banking, Treasury and Islamic banking.

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.

4 INTEREST AND SIMILAR INCOME

	2011	2010
	AED'000	AED'000
Interest on loans and advances to customers	**479,656**	386,583
Interest on money market and inter bank transactions	**9,811**	7,978
Interest on investments	**20,501**	17,509
	509,968	412,070

5 INTEREST AND SIMILAR EXPENSES

	2011	2010
	AED'000	AED'000
Interest on customer deposits	**70,373**	56,760
Interest and expenses on inter bank transactions	**5,735**	4,037
	76,108	60,797

6 OTHER OPERATING INCOME

	2011 AED'000	2010 AED'000
Charges recovered from customers	**22,511**	24,105
Other banking income	**10,595**	8,709
Income from collections	**4,084**	4,529
Others	**4,201**	5,407
	41,391	42,750

7 LOANS AND ADVANCES

	2011 AED'000	*2010 AED'000*
The composition of the loans and advances portfolio is as follows:		
(a) By type:		
Overdrafts	**1,215,160**	1,120,247
Loans (medium and short term)*	**4,928,173**	3,396,340
Loans against trust receipts	**1,116,257**	710,703
Bills discounted	**617,756**	227,688
Other cash advances	**42,434**	143,351
Bills drawn under letters of credit	**27,769**	46,445
Gross amount of loans and advances	**7,947,549**	5,644,774
Less: Provision for impairment on loans and advances	**(95,781)**	(136,859)
Interest in suspense	**(8,015)**	(10,433)
Net loans and advances	**7,843,753**	5,497,482

*includes retail loans of AED 1,946,826,000 (2010: AED 1,121,424,000).

7 LOANS AND ADVANCES (continued)

	2011 AED'000	2010 AED'000
(b) By economic sector:		
Government and public sector	**508,157**	448,587
Trade	**1,934,871**	1,194,509
Personal loans (retail and business)	**2,841,170**	1,727,699
Manufacturing	**1,309,306**	974,205
Construction	**412,263**	312,557
Services	**435,404**	138,553
Financial institutions	**265,916**	757,340
Transport and communication	**152,232**	85,602
Agriculture	**6,322**	2,149
Others	**81,908**	3,573
Gross amount of loans and advances	**7,947,549**	5,644,774

	2011 AED'000	2010 AED'000
(c) By classification:		
Corporate	**6,000,723**	4,523,350
Retail	**1,946,826**	1,121,424
Gross amount of loans and advances	**7,947,549**	5,644,774

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:

	2011		2010	
	Interest in suspense AED'000	**Impairment provisions AED'000**	*Interest in suspense AED'000*	*Impairment provisions AED'000*
Balance at 1 January	**10,433**	**136,859**	12,923	133,572
Suspended/ provided during the year	**11,051**	**84,621**	8,948	45,455
Released during the year	**(5,880)**	**(14,087)**	(10,718)	(26,157)
	5,171	**70,534**	(1,770)	19,298
Amounts written off during the year	**(7,589)**	**(111,612)**	(720)	(16,011)
Balance at 31 December	**8,015**	**95,781**	10,433	136,859

At 31 December 2011, 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 127,491,000 (2010: AED 178,854,000).

7 LOANS AND ADVANCES (continued)

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

	2011		2010	
	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	**86,575**	**22,927**	10,854	9,841
Personal loans (retail and business)	**31,987**	**24,761**	157,616	81,681
Manufacturing	**2,951**	**2,597**	5,020	2,849
Construction	**2,150**	**1,197**	985	985
Services	**325**	**271**	378	378
Transport and communication	**3,477**	**3,477**	3,929	3,928
Agriculture	**26**	**26**	72	72
Total	**127,491**	**55,256**	178,854	99,734

The fair value of collateral that the Bank holds relating to loans to corporate customers individually determined to be impaired at 31 December 2011 amounts to AED 37,816,000 (2010: AED 64,000,000). The collateral consists of cash, securities, letters of guarantee and properties.

Collateral repossessed

During the year, the Bank did not repossess any material amounts of collaterals.

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 2011	**39,844**	**63,859**	**14,899**	**118,602**
Additions	**-**	**11,585**	**32,457**	**44,042**
Transfers	**-**	**5,284**	**(5,284)**	**-**
Disposals	**-**	**(1,037)**	**-**	**(1,037)**
At 31 December 2011	**39,844**	**79,691**	**42,072**	**161,607**
Depreciation:				
At 1 January 2011	**4,471**	**40,878**	**-**	**45,349**
Charge for the year	**1,560**	**9,510**	**-**	**11,070**
Relating to disposals	**-**	**(967)**	**-**	**(967)**
At 31 December 2011	**6,031**	**49,421**	**-**	**55,452**
Net carrying value:				
At 31 December 2011	**33,813**	**30,270**	**42,072**	**106,155**

8 PROPERTY AND EQUIPMENT (continued)

	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 2010	32,194	50,416	16,598	99,208
Additions	-	4,684	14,710	19,394
Transfers	7,650	8,759	(16,409)	-
At 31 December 2010	39,844	63,859	14,899	118,602
Depreciation:				
At 1 January 2010	2,945	33,328	-	36,273
Charge for the year	1,526	7,550	-	9,076
At 31 December 2010	4,471	40,878	-	45,349
Net carrying value:				
At 31 December 2010	35,373	22,981	14,899	73,253

The cost of freehold land included above is AED 5,224,000 (2010: AED 5,224,000).

During 2011, 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 32.5 million (2010: AED 14.7 million). These shall be recognised under "freehold land and buildings" and "motor vehicles, furniture, fixtures and equipment" respectively upon completion.

Revaluation of freehold land and buildings

The Bank engaged M/s Continental Real Estate Property Consultants, an independent valuer, to determine the fair value of the land and building. Fair value is determined by reference to open market values on an existing use basis. The date of revaluation was 16 June 2007.

If the freehold land and building were measured using the cost model, the net carrying amount at 31 December 2011 would be AED 12,142,000 (2010: AED 12,522,000).

9 BASIC AND DILUTED EARNINGS PER SHARE

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

	2011	2010
Profit for the year net of directors' remuneration of AED 3,600,000 (2010: AED 1,800,000)	**AED 326,554,000**	AED 306,201,000
Weighted average number of shares of AED 1 each outstanding during the year	**996,401,000**	996,401,000
Basic and diluted earnings per share	**AED 0.33**	AED 0.31

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

10 CASH AND BALANCES WITH UAE CENTRAL BANK

	2011 AED'000	2010 AED'000
Cash on hand	**49,828**	41,871
Balances with UAE Central Bank:		
Clearing accounts	**139,438**	27,492
Reserve requirements	**359,328**	314,493
	548,594	383,856

The reserve requirements are kept with the UAE Central Bank in AED and USD, are not available for use in the Bank's day to day operations and cannot be withdrawn without its approval. However, the Central Bank vide its Circular 4310/2008 dated 24 September 2008, has temporarily permitted banks to overdraw their current accounts (a) up to the amount of reserves which shall carry interest at a rate of 3% per annum above the prevailing Central Bank Repo rate, and (b) in excess of reserves which shall carry interest at a rate of 5% per annum 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 include AED 457,565,000 (2010: AED 891,541,000) placed with foreign banks outside the UAE. Out of this amount AED nil (2010: AED 312,162,000) is under lien against borrowings and AED 11,506,000 (2010: AED 21,402,000) is held as margin for derivative transactions.

12 ISLAMIC FINANCING AND INVESTING ASSETS

	2011 AED'000	2010 AED'000
Murabaha	**27,651**	22,855
Tawarruq	**128,839**	11,371
Ijarah	**56,058**	-
	212,548	34,226

13 INVESTMENTS

	2011			2010		
	Quoted AED'000	**Unquoted AED'000**	**Total AED'000**	Quoted AED'000	Unquoted AED'000	Total AED'000
Debt:						
Held to maturity						
Local	**-**	**-**	**-**	57,299	-	57,299
Overseas	**-**	**-**	**-**	-	-	-
	-	**-**	**-**	57,299	-	57,299
Available for sale						
Local	**578,182**	**-**	**578,182**	363,928	-	363,928
Overseas	**17,075**	**-**	**17,075**	15,700	75,000	90,700
	595,257	**-**	**595,257**	379,628	75,000	454,628
Total debt securities	**595,257**	**-**	**595,257**	436,927	75,000	511,927
Equity:						
Available for sale						
Local	**-**	**-**	**-**	-	-	-
Overseas	**330**	**76**	**406**	337	76	413
Total equities	**330**	**76**	**406**	337	76	413
Total investments	**595,587**	**76**	**595,663**	437,264	75,076	512,340

Included in the above are Investment securities amounting to AED 77,393,000 (2010: nil) held under repurchase agreement with the lenders.

14 OTHER ASSETS

	2011	2010
	AED'000	AED'000
Interest receivable	**26,819**	17,845
Positive fair value of derivatives (Note 21)	**4,584**	4,982
Cheques awaiting clearance	**60**	60
Prepayments and other assets	**25,618**	11,170
	57,081	34,057

NOTES TO THE FINANCIAL STATEMENTS
At 31 December 2011

15 CUSTOMERS' DEPOSITS

	2011 AED'000	2010 AED'000
Term and call deposits	**4,871,406**	2,168,235
Current accounts	**2,377,783**	2,012,275
Saving accounts	**93,921**	78,041
	7,343,110	4,258,551

Deposits include AED 178,863 thousand (31 December 2010: AED 352,818 thousand) received from the Ministry of Finance, United Arab Emirates, in the last quarter of 2008. This amount was originally available for a period of 5 years (2010: 3 to 5 years), subject to certain conditions to be adhered to during the tenure of the deposits and is repayable in a lump sum on maturity. The deposits carry interest at 120 basis points above the US Treasury 5 year notes or 4%, whichever is higher, payable on a quarterly basis.

16 ISLAMIC CUSTOMERS' DEPOSITS

	2011 AED'000	2010 AED'000
Term and call deposits	**452,608**	581,176
Current accounts	**27,152**	10,439
Saving accounts	**559**	-
	480,319	591,615

17 OTHER LIABILITIES

	2011 AED'000	2010 AED'000
Interest payable	**22,168**	15,647
Staff related provisions	**41,954**	41,805
Negative fair values of derivatives (Note 21)	**5,362**	5,362
Others	**37,634**	32,242
	107,118	95,056

17 OTHER LIABILITIES (continued)

	2011 AED'000	2010 AED'000
Staff related provisions		
The aggregate employee entitlement liability comprises:		
Employees' end of service benefits	**31,084**	31,723
Other liabilities	**10,870**	10,082
	41,954	41,805

In accordance with UAE labour law the Bank 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:

	2011 AED'000	2010 AED'000
Liability as at 1 January	**31,723**	32,703
Expense recognised in the income statement	**4,973**	3,977
End of service benefits paid	**(5,612)**	(4,957)
Liability as at 31 December	**31,084**	31,723

18 SHARE CAPITAL AND RESERVES

a) Share capital

The authorised, issued and fully paid up share capital of the Bank comprises 996,401,000 (2010: 996,401,000) shares of AED 1 each.

b) Special reserve

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

c) Statutory reserve

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

d) General reserve

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

e) Revaluation reserve

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

18 SHARE CAPITAL AND RESERVES (continued)

f) Dividends

The directors have proposed a cash dividend amounting to AED 199,280,200 at AED 0.20 per share of AED 1 each (2010: cash dividend of AED 159,424,000 at AED 0.16 per share of AED 1 each). This is subject to the approval of the regulator and the shareholders at the Annual General Assembly to be held in February 2012.

19 CUMULATIVE CHANGES IN FAIR VALUES

	Available for sale investments and securities AED'000	Cash flow hedges AED'000	Total AED'000
At 1 January 2011	**(30,993)**	**-**	**(30,993)**
Net unrealised gain/(loss) on available for sale investments/ cash flow hedges	**8,598**	**(816)**	**7,782**
Reversal of loss on sale of available for sale investments	**4,530**	**-**	**4,530**
Reversal of loss on redemption of available for sale investments	**3,624**	**-**	**3,624**
At 31 December 2011	**(14,241)**	**(816)**	**(15,057)**
At 1 January 2010	(59,441)	-	(59,441)
Net unrealised gain on available for sale investments	22,086	-	22,086
Reversal of loss on sale of available for sale investments	48	-	48
Reversal of loss on redemption of available for sale investments	6,314	-	6,314
At 31 December 2010	(30,993)	-	(30,993)

20 RELATED PARTY TRANSACTIONS

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

	Maximum balance during the year 2011 AED'000	Balance as at 31 December 2011 AED'000	*Maximum balance during the year 2010 AED'000*	*Balance as at 31 December 2010 AED'000*
Key management personnel of the Bank:				
Loans and advances	**11,934**	**11,934**	5,075	5,075
Customer deposits	**7,196**	**7,196**	6,408	6,054
Shareholders:				
Due from banks	**183,997**	**183,997**	314,319	312,541
Due to banks	**183,709**	**183,709**	147,688	147,293

20 RELATED PARTY TRANSACTIONS (continued)

	Maximum balance during the year 2011 AED'000	**Balance as at 31 December 2011 AED'000**	*Maximum balance during the year 2010 AED'000*	*Balance as at 31 December 2010 AED'000*
Directors:				
Loans and advances	**10,938**	**4,799**	10,290	5,944
Customer deposits	**47,366**	**46,846**	73,667	31,640
Commitments and contingencies	**962**	**962**	293	146
Other related entities:				
Loans and advances	**58,779**	**36,076**	69,711	51,942
Due from banks	**118,977**	**118,977**	-	-
Customer deposits	**295,280**	**294,432**	255,404	192,640
Commitments and contingencies	**325,411**	**242,678**	349,731	299,019

Shareholders, directors, their related entities and key management personnel	**2011 AED'000**	*2010 AED'000*
Accrued interest income	**54**	365
Accrued interest expense	**820**	371

The income and expenses in respect of related parties included in the financial statements are as follows:

Shareholders, directors, their related entities and key management personnel	**2011 AED'000**	*2010 AED'000*
Interest income	**3,204**	6,851
Interest expense	**7,975**	6,099
Directors' remuneration	**3,600**	1,800

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 are 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 2011, the Bank has not made any provision for doubtful debts relating to amounts owed by related parties (2010: Nil).

Compensation of key management personnel is as follows:

	2011 AED'000	*2010 AED'000*
Short term benefits	**16,715**	14,848
Employees' end of service benefits	**1,305**	2,111
Total compensation as at 31 December	**18,020**	16,959

	2011	*2010*
Number of key management personnel	**20**	16

The Bank has leased office space in various premises owned by a related party. The property rental and associated expenses for the year amounted to AED 2,409,000 (2010: AED 2,318,000). The property rentals are negotiated each year at market rates.

21 DERIVATIVES

In the ordinary course of business the Bank 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.

At 31 December 2011

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

21 DERIVATIVES (continued)

At 31 December 2010

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amounts by term to maturity: Within 3 months AED'000	3-12 months AED'000	1-5 years AED'000
Derivatives held for trading:						
Forward foreign exchange contracts	20	34	1,289,027	1,103,036	185,991	-
Foreign currency options	4,962	4,962	367,836	298,438	69,398	-
Interest rate swaps	-	366	36,725	-	-	36,725
	4,982	5,362	1,693,588	1,401,474	255,389	36,725
Derivatives held for cash flow hedge:						
Interest rate swaps	-	-	-	-	-	-

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 Bank.

Over-the-counter derivatives may expose the bank 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 Bank's best estimate of the most appropriate model inputs (Note 25).

Derivative product types

Forwards Contracts

Forward contracts are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market .The bank 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 Bank with other financial institutions in which the Bank 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 Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

Derivative related credit risk

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive fair value of instruments that are favourable to the Bank. Approximately 77% (2010: 86%) of the Bank's derivative contracts are entered into with other financial institutions and less than 23% (2010: 14%) of the fair value of favourable contracts is with any individual counterparty at the statement of financial position date.

21 DERIVATIVES (continued)

Derivative product types (continued)

Purpose of derivatives
In the normal course of meeting the needs of the Bank's customers, the Bank 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 Bank 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 Bank 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 Bank's contractual amounts in respect of letters of credit, guarantees and acceptances commit the Bank 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.

The Bank has the following credit related commitments:

	2011 AED'000	2010 AED'000
Contingent liabilities		
Letters of credit	**614,231**	542,837
Guarantees and acceptances	**3,326,368**	3,059,351
	3,940,599	3,602,188
Commitments		
Undrawn loan commitments	**2,260,065**	2,455,548

23 RISK MANAGEMENT

Introduction
Risk is inherent in all the Bank'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 Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities.

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

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

23 RISK MANAGEMENT (continued)

Introduction (continued)

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 Bank for maintaining a diversified portfolio, avoiding undesired risk concentrations, improving the overall asset quality of the portfolio, and complying with Credit Policy and regulatory guidelines.

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

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

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

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

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

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

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

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

23 RISK MANAGEMENT (continued)

Introduction (continued)

Risk Mitigation
As part of its overall risk management, the Bank 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 Bank 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 Bank's performance to developments affecting a particular industry or geographical location.

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

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

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

Maximum exposure to credit risk after provision but without taking account of any collateral and other credit enhancements:

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 2011 AED'000**	Maximum exposure 2010 AED'000
Cash and balances with UAE Central bank (excluding cash on hand)	10	**498,766**	341,985
Due from banks	11	**1,468,301**	1,206,855
Loans and advances (net of provisions)	7	**7,843,753**	5,497,482
Islamic financing and investment assets	12	**212,548**	34,226
Investments in debt securities	13	**595,257**	511,927
Other assets (excluding prepayments)	14	**44,669**	25,460
Total		**10,663,294**	**7,617,935**
Letters of credit	22	**614,231**	542,837
Guarantees and acceptances	22	**3,326,368**	3,059,351
Undrawn loans commitments	22	**2,260,065**	2,455,548
Total		**6,200,664**	6,057,736
Total credit risk exposure		**16,863,958**	**13,675,671**

23 RISK MANAGEMENT (continued)

Credit risk (continued)

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 2011 was AED 230,000,000 (2010: AED 250,000,000) before taking account of collateral or other credit enhancements and AED 230,000,000 (2010: AED 250,000,000) net of such protection.

The Bank'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:

	2011		2010	
	Assets AED'000	**Contingent liabilities and commitments AED'000**	Assets AED'000	Contingent liabilities and commitments AED'000
United Arab Emirates	**9,893,293**	**6,012,291**	6,350,876	5,877,064
Other Middle East countries	**637,710**	**77,195**	869,135	21,364
Europe	**104,559**	**50,053**	346,420	90,449
USA	**4,086**	**4,552**	29,506	3,933
Rest of the world	**23,646**	**56,573**	21,998	64,926
Total	**10,663,294**	**6,200,664**	7,617,935	6,057,736

An industry sector analysis of the Bank'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 2011 AED'000	*Maximum exposure 2010 AED'000*
	2,339,656	2,511,605
Financial services	**1,934,871**	1,195,558
Trade	**1,309,306**	974,975
Manufacturing	**872,315**	557,584
Government and public sector	**412,263**	313,023
Construction	**560,236**	141,595
Other services	**3,338,443**	2,070,887
Others		
	10,767,090	7,765,227
Less: Impairment provision on loans and advances	**(103,796)**	(147,292)
	10,663,294	7,617,935

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 Bank 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 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.

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Bank 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 Bank's credit rating system.

	Neither past due nor impaired				
	High grade 2011 AED'000	**Standard grade 2011 AED'000**	**Sub-standard grade 2011 AED'000**	**Past due or individually impaired 2011 AED'000**	**Total 2011 AED'000**
Balances with UAE Central Bank	**498,766**	**-**	**-**	**-**	**498,766**
Due from banks	**1,181,030**	**287,271**	**-**	**-**	**1,468,301**
Investments	**217,798**	**377,459**	**-**	**-**	**595,257**
Loans and advances (Gross)	**2,591,359**	**4,737,766**	**294,355**	**324,069**	**7,947,549**
Islamic financing and Investing assets	**-**	**212,548**	**-**	**-**	**212,548**
	4,488,953	**5,615,044**	**294,355**	**324,069**	**10,722,421**

	Neither past due nor impaired				
	High grade 2011 AED'000	Standard grade 2011 AED'000	Sub-standard grade 2011 AED'000	Past due or individually impaired 2011 AED'000	Total 2011 AED'000
Balances with UAE Central Bank	341,985	-	-	-	341,985
Due from banks	1,106,642	100,213	-	-	1,206,855
Investments	399,459	112,468	-	-	511,927
Loans and advances (Gross)	2,140,666	3,179,375	37,648	287,085	5,644,774
Islamic financing and Investing assets	34,226	-	-	-	34,226
	4,022,978	3,392,056	37,648	287,085	7,739,767

23 RISK MANAGEMENT (continued)

Credit risk (continued)

Credit quality per class of financial assets (continued)

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.

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

	Moody's equivalent grades	**Historical default rates 2011**	Historical default rates 2010	**Total 2011 AED'000**	Total 2010 AED'000
High grade					
Risk rating class 1	Aaa	**-**	-	**1,179,922**	1,056,219
Risk rating class 2	Aa1-A3	**0.25%**	0.25%	**3,309,031**	2,991,807
Standard grade					
Risk rating class 3	Ba1	**0.50%**	0.50%	**2,574,478**	1,705,860
Risk rating class 4	Ba2-Ba3	**1.25%**	1.25%	**589,887**	764,383
Unrated (incl Retail)		**1.00%**	2.50%	**2,495,348**	922,226
Sub Standard grade					
Risk rating class 5A	B3	**1.50%**	3.00%	**118,961**	56,781
Risk rating class 5B	Caa-C	**2.50%**	5.00%	**371,972**	89,097
Impaired					
Risk rating class 6,7 & 8	D			**127,491**	178,854
				10,767,090	7,765,227
Less: Impairment provision and interest in suspense on loans and advances				**(103,796)**	(147,292)
				10,663,294	7,617,935

23 RISK MANAGEMENT (continued)

Credit risk (continued)

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

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

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

	Less than 30 days 2011 AED'000	**31 to 60 days 2011 AED'000**	**61 to 90 days 2011 AED'000**	**More than 91 Days 2011 AED'000**	**Total 2011 AED'000**
Loans and advances	**138,213**	**49,865**	**8,500**	**-**	**196,578**
	2010 AED'000	*2010 AED'000*	*2010 AED'000*	*2010 AED'000*	*2010 AED'000*
Loans and advances	74,142	16,649	6,190	11,250	108,231

The fair value of the collateral that the Bank held at 31 December 2011 for past due but not impaired loans and advances to customers covers approximately 22% (2010: 36%) of the outstanding balance.

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

	2011 AED'000	2010 AED'000
Loans and advances	228,637	212,837

Liquidity risk

Liquidity risk is defined as the risk that the Bank 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 Bank 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 Bank 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 Bank 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 Bank also has committed lines of credit that it can access to meet liquidity needs. In addition, the Bank 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 Bank'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 Bank. 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:

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

	2011	2010
Advances to Stable Resources Ratio	**87.1%**	86.3%
Net Liquid Assets to Customer Deposits Ratio	**28.2%**	23.7%
Capital Adequacy Ratio	**20.3%**	20.4%

The Bank 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.

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 Bank's deposit retention history and the availability of liquid funds, as at 31 December 2011 is as follows:

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Sub total less than 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Sub total over 12 months AED'000	` Undated AED'000	Total AED'000
ASSETS									
Cash and balances with UAE Central Bank	548,594	-	-	548,594	-	-	-	-	548,594
Due from banks	1,468,301	-	-	1,468,301	-	-	-	-	1,468,301
Loans and advances (Gross)	2,841,536	1,100,174	697,684	4,639,394	2,390,884	917,271	3,308,155	-	7,947,549
Islamic financing and investment assets	1,128	-	-	1,128	88,939	122,481	211,420	-	212,548
Investments	-	17,075	46,500	63,575	460,230	71,452	531,682	406	595,663
Property and equipment	-	-	-	-	-	-	-	106,155	106,155
Other assets	44,670	-	12,411	57,081	-	-	-	-	57,081
Provision for impairment of loans and advances and interest in suspense	(103,796)	-	-	(103,796)	-	-	-	-	(103,796)
Sub-total	4,800,433	1,117,249	756,595	6,674,277	2,940,053	1,111,204	4,051,257	106,561	10,832,095
LIABILITIES AND SHAREHOLDERS' FUNDS									
Due to banks	402,438	-	418,085	820,523	50,000	-	50,000	-	870,523
Customers' deposits	5,634,109	485,060	617,262	6,736,431	606,679	-	606,679	-	7,343,110
Islamic customers' deposits	344,819	63,000	72,500	480,319	-	-	-	-	480,319
Other liabilities	76,034	-	-	76,034	-	-	-	31,084	107,118
Shareholders' funds	-	-	-	-	-	-	-	0	2,031,025
Sub-total	6,457,400	548,060	1,107,847	8,113,307	656,679	-	656,679	2,062,109	10,832,095
Net liquidity gap	(1,656,967)	569,189	(351,252)	(1,439,030)	2,283,374	1,111,204	3,394,578	(1,955,548)	-

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

The maturity profile of assets and liabilities at 31 December 2010 was as follows:

	Less than 3 months AED'000	From 3 months to 6 months AED'000	From 6 months to 12 months AED'000	Sub total less than 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Sub total over 12 months AED'000	Undated AED'000	Total AED'000
ASSETS									
Cash and balances with UAE Central Bank	383,856	-	-	383,856	-	-	-	-	383,856
Due from banks	1,206,855	-	-	1,206,855	-	-	-	-	1,206,855
Loans and advances (Gross)	2,370,220	765,282	511,036	3,646,538	1,759,399	238,837	1,998,236	-	5,644,774
Islamic financing and investment assets	49	-	40	89	18,477	15,660	34,137	-	34,226
Investments	68,045	-	11,385	79,430	432,497	-	432,497	413	512,340
Property and equipment	-	-	-	-	-	-	-	73,253	73,253
Other assets	34,057	-	-	34,057	-	-	-	-	34,057
Provision for impairment of loans and advances and interest in suspense	(147,292)	-	-	(147,292)	-	-	-	-	(147,292)
Sub-total	3,915,790	765,282	522,461	5,203,533	2,210,373	254,497	2,464,870	73,666	7,742,069
LIABILITIES AND SHAREHOLDERS' FUNDS									
Due to banks	489,826	146,900	-	636,726	312,162	-	312,162	-	948,888
Customers' deposits	3,131,423	225,267	493,494	3,850,184	408,367	-	408,367	-	4,258,551
Islamic customers' deposits	112,589	469,057	9,969	591,615	-	-	-	-	591,615
Other liabilities	63,333	-	-	63,333	-	-	-	31,723	95,056
Shareholders' funds	-	-	-	-	-	-	-	1,847,959	1,847,959
Sub-total	3,797,171	841,224	503,463	5,141,858	720,529	-	720,529	1,879,682	7,742,069
Net liquidity gap	118,619	(75,942)	18,998	61,675	1,489,844	254,497	1,744,341	(1,806,016)	-

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial liabilities at 31 December 2011 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay and the table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

Financial liabilities **31 December 2011**	**On demand AED'000**	**Less than 3 months AED'000**	**3 to 12 months AED'000**	**1 to 5 years AED'000**	**Over 5 years AED'000**	**Total AED'000**
Due to banks	**25,324**	**377,647**	**421,038**	**51,695**	**-**	**875,704**
Customer deposits	**2,571,420**	**3,072,068**	**1,119,201**	**651,270**	**-**	**7,413,959**
Islamic customers' deposits	**27,711**	**318,079**	**137,575**	**-**	**-**	**483,365**
Other liabilities	**34,809**	**24,993**	**-**	**-**	**-**	**59,802**
Financial derivatives	**-**	**579**	**5,748**	**1,657**	**-**	**7,984**
Total undiscounted financial liabilities	**2,659,264**	**3,793,366**	**1,683,562**	**704,622**	**-**	**8,840,814**

31 December 2010	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Due to banks	19,729	471,095	148,461	328,083	-	967,368
Customer deposits	2,124,224	1,010,724	731,339	442,669	-	4,308,956
Islamic customers' deposits	10,439	102,508	487,409	-	-	600,356
Other liabilities	33,722	14,167	-	-	-	47,889
Financial derivatives	-	59	221	422	-	702
Total undiscounted financial liabilities	2,188,114	1,598,553	1,367,430	771,174	-	5,925,271

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

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

23 RISK MANAGEMENT (continued)

Liquidity risk (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

31 December 2010	On demand AED'000	Less than 3 months AED'000	3 to 12 months AED'000	1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Inflows	-	14	85	196	-	295
Outflows	-	(59)	(221)	(422)	-	(702)
Net	-	(45)	(136)	(226)	-	(407)
Discounted at applicable interbank rates	-	(45)	(135)	(223)	-	(403)

The table below shows the contractual maturity profile of the Bank'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**
2011						
Contingent liabilities	**372,702**	**2,416,165**	**555,790**	**595,942**	**-**	**3,940,599**
Commitments	**2,260,065**	**-**	**-**	**-**	**-**	**2,260,065**
Total	**2,632,767**	**2,416,165**	**555,790**	**595,942**	**-**	**6,200,664**
2010						
Contingent liabilities	-	2,465,770	977,552	158,866	-	3,602,188
Commitments	2,455,548	-	-	-	-	2,455,548
Total	2,455,548	2,465,770	977,552	158,866	-	6,057,736

The Bank 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 Bank'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 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 reprice in a given period. The Board has established limits on the interest rate gaps for stipulated periods. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within the established limits.

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

23 RISK MANAGEMENT (continued)

Interest rate risk (continued)

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2011, including the effect of hedging instruments.

	2011		2010	
Currency	**Change in basis points**	**Sensitivity of net interest income AED'000**	Change in basis points	Sensitivity of net interest income AED'000
All currencies	**+25**	**9,938**	+25	8,742
All currencies	**-25**	**(9,938)**	-25	(8,742)

The interest rate sensitivity set out above relates primarily to the US Dollar as the Bank 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 bank 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 is currently pegged to the US Dollar, balances in US Dollars are not considered to represent significant currency risk.

The tables below indicate the currencies to which the Bank had significant exposure at 31 December 2011 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 income statement (due to the fair value of currency sensitive non trading monetary assets and liabilities) and equity (due to change in the fair value of currency swaps used as cash flow hedges). A negative amount in the table reflects a potential net reduction in income statement, while a positive amount reflects a net potential increase.

Currency	**Change in currency rate in % 2011**	**Effect on profit 2011 AED'000**	Change in currency rate in % 2010	Effect on profit 2010 AED'000
Euro	**+10**	**(131)**	+10	3
GBP	**+10**	**26**	+10	2

Operational risk

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

24 SEGMENTAL ANALYSIS

Primary segment information

For the purpose of operating to the chief operating decision makers, the bank is organised into four segments:

Retail banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and funds transfer facilities;

Corporate banking - principally handling loans and other credit facilities as well as deposit and current accounts for corporate and institutional customers;

Treasury - principally providing money market, trading and treasury services, as well as the management of the Bank's funding operations by use of placements with and acceptances from other banks, and investments in debt and equity instruments through treasury and wholesale banking.

Islamic Banking - principally offering Islamic loans and deposit products for both corporate and retail customers.

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

No income from transactions with a single external customer or counterparty amounted to 10% or more of the Bank's total income in 2011 or 2010.

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

	Retail banking AED'000	Corporate banking AED'000	Treasury AED'000	Islamic banking AED '000	Inter-segment adjustments for Islamic banking AED'000	Total AED'000
Interest and other income	129,470	409,987	119,630	22,792	(11,017)	670,862
Interest and other expense	(39,853)	(126,200)	(88,907)	(15,161)	11,017	(259,104)
Impairment losses on loans and advances	(70,120)	(414)	-	-	-	(70,534)
Depreciation	(2,556)	(8,095)	(190)	(229)	-	(11,070)
Profit for the year	16,941	275,278	30,533	7,402	-	330,154
Segment assets	1,945,824	6,062,062	2,600,076	474,133	(250,000)	10,832,095
Segment liabilities	1,398,692	5,936,497	1,223,920	491,961	(250,000)	8,801,070
Other segment information						
Capital expenditure -Property and equipment	8,065	25,131	10,846	-	-	44,042

24 SEGMENTAL ANALYSIS (continued)

Segmental information for the year ended 31 December 2010 was as follows:

	Retail banking AED'000	Corporate banking AED'000	Treasury AED'000	Islamic banking AED '000	Inter-segment adjustments for Islamic banking AED'000	Total AED'000
Interest and other income	89,663	361,665	104,010	8,847	(5,176)	559,009
Interest and other expense	(34,512)	(170,133)	(13,240)	(9,925)	5,176	(222,634)
Impairment losses on loans and advances	(10,051)	(9,247)	-	-	-	(19,298)
Depreciation	(1,225)	(5,310)	(2,501)	(40)	-	(9,076)
Profit for the year	43,875	176,975	88,269	(1,118)	-	308,001
Segment assets	1,044,153	4,529,006	2,134,213	601,697	(567,000)	7,742,069
Segment liabilities	1,540,590	2,786,622	1,532,996	600,902	(567,000)	5,894,110
Other segment information						
Capital expenditure						
-Property and equipment	2,616	11,348	5,343	87	-	19,394

Secondary segment information

The Bank operates in only one geographic area, the United Arab Emirates. Accordingly, no further geographical analysis of operating income, profit and net assets is given.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS

A. Determination of fair value and fair value hierarchy

The Bank 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.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

A. Determination of fair value and fair value hierarchy (continued)

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

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

Financial liabilities

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

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

A. Determination of fair value and fair value hierarchy (continued)

	Level 1 AED'000	**Level 2 AED'000**	**Level 3 AED'000**	**Total AED'000**
31 December 2010				
Financial assets				
Derivative financial instruments				
Forward foreign exchange contracts	-	20	-	20
Currency options	-	4,962	-	4,962
	-	4,982	-	4,982
Financial investments available for-sale				
Quoted investments				
Government debt securities	90,250	-	-	90,250
Other debt securities	322,177	24,500	-	346,677
Equities	337	-	-	337
Unquoted investments				
Other debt securities	-	-	75,000	75,000
Equities	-	-	76	76
	412,764	24,500	75,076	512,340
	412,764	29,482	75,076	517,322

Financial liabilities

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Derivative financial instruments				
Interest rate swaps	-	366	-	366
Forward foreign exchange contracts	-	34	-	34
Currency options	-	4,962	-	4,962
	-	5,362	-	5,362

Financial instruments recorded at fair value

The following is a description of the determination of fair value for financial instruments which are recorded at fair value using valuation techniques. These incorporate the Bank'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.

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

A. Determination of fair value and fair value hierarchy (continued)

Financial instruments recorded at fair value (continued)

Financial investments – available-for-sale

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

Movements in level 3 financial instruments measured at fair value

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

31 December 2011

	At 1 January 2011 AED'000	**Total gain or loss recorded in profit and loss AED'000**	**Purchase AED'000**	**Sales / redemptions AED'000**	**Total gain or loss recorded in equity AED'000**	**Transfer to level 2 AED'000**	**At 31 December 2011 AED'000**
Financial assets							
Financial investments							
available for-sale:							
Unquoted investments	**75,076**	**-**	**-**	**75,000**	**-**	**-**	**76**
Total level 3 financial assets	**75,076**	**-**	**-**	**75,000**	**-**	**-**	**76**

31 December 2010

	At 1 January 2010 AED'000	Total gain or loss recorded in profit and loss AED'000	Purchase AED'000	Sales AED'000	Total gain or loss recorded in equity AED'000	Transfer to level 2 AED'000	At 31 December 2010 AED'000
Financial assets							
Financial investments							
available for-sale:							
Unquoted investments	75,076	-	-	-	-	-	75,076
Total level 3 financial assets	75,076	-	-	-	-	-	75,076

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. (2010: Nil)

25 FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

A. Determination of fair value and fair value hierarchy (continued)

Impact on fair value of level 3 financial instruments measured at fair value of changes to key assumptions

The following table shows the impact on the fair value of level 3 instruments of using reasonably possible alternative assumptions by class of instrument:

	31 December 2011	
	Carrying amount AED'000	**Effect of reasonably possible alternative assumptions AED'000**
Financial investments available-for-sale	**-**	**-**

	31 December 2010	
	Carrying amount AED'000	Effect of reasonably possible alternative assumptions AED'000
Financial investments available-for-sale	75,000	7,500

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

- For debt securities (other than asset backed securities), the Bank 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 Bank's internal credit risk ratings for the counterparties.
- For equities, the Bank did not have a material exposure for the years 2010 and 2011 and accordingly no sensitivity analysis has been done.

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

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

Asset for which fair value approximates carrying value

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

Fixed rate financial instruments

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

26 CAPITAL ADEQUACY

The Bank maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Bank'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 Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Bank manages its capital structure 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 structure, the Bank 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 established for the global banking industry, are as follows:

RISK WEIGHTED EXPOSURES	Balance		Risk weighted equivalents	
	2011 AED'000	2010 AED'000	**2011 AED'000**	2010 AED'000
Assets				
Cash and claims on, guaranteed by or collateralised by securities of central governments and central banks of OECD countries	**49,828**	41,871	**-**	-
Claims on banks and public sector companies incorporated in OECD countries and short term claims on banks incorporated in non-OECD countries	**1,496,946**	1,519,090	**299,389**	303,818
Claims secured by mortgage of residential property	**1,291,158**	635,323	**1,291,158**	635,323
Claims on public sector entities, central governments, central banks and longer term claims on banks incorporated in non-OECD countries and all other assets, including claims on private sector entities				
Claims at 0%	**1,842,819**	1,285,231	**-**	-
Claims at 20%	**60**	60	**12**	12
Claims at 50%	**173,415**	19,503	**86,708**	9,752
Claims at 100%	**6,026,409**	4,240,991	**6,026,409**	4,240,991
General Provision – classified under Tier 2	**(48,540)**			
	10,832,095	7,742,069	**c/f 7,703,676**	5,189,896

26 CAPITAL ADEQUACY (continued)

RISK WEIGHTED EXPOSURES (continued)

	Balance		Risk weighted equivalents	
	2011	2010	**2011**	2010
	AED'000	AED'000	**AED'000**	AED'000
			b/f 7,703,676	5,189,896
Off balance sheet items				
Credit commitments and contingent items (note 22)	**6,200,664**	6,057,736	**2,466,509**	2,248,445
Derivatives (note 21)	**1,319,633**	1,693,588	**3,705**	1,802
Credit risk weighted assets and off balance sheet items			**10,173,890**	7,440,143
Market risk weighted assets and off balance sheet items			**-**	-
Total risk weighted assets			**10,173,890**	7,440,143
Risk asset ratio			**20.3%**	20.4%

Regulatory capital consists mainly of Tier 1 capital, which comprises share capital, share premium, retained earnings excluding 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 bank has complied with all the requirements as set by the Central Bank of UAE in respect of capital adequacy.

BASEL II - PILLAR 3 DISCLOSURES
At 31 December 2011

These disclosures are being made in compliance with Circular No. 27/2009 dated 17th November 2009 issued by the Central Bank of the UAE, and are in conformity with Basel II capital adequacy calculations for 31st December 2011 prepared in terms of the Circular.

References have been made to Audited Financial Statements for additional details only, where considered relevant. The amounts in a few such cases may not exactly agree due to minor differences in classifications or in basis of presentation.

These disclosures pertain to operations of United Arab Bank only. The Bank had no investments in subsidiaries or other significant investments at the end of the year.

A. CAPITAL STRUCTURE

(AED 000's)

Category	Summarised terms & conditions and main features	Amount
Tier 1 Capital		
1. Paid up share capital	Represented by Ordinary Shares of AED 1 each	996,401
2. Reserves		
a. Statutory reserve (incl. Share Premium)	Under Article 192 of UAE Commercial Companies Law No 8 of 1984	305,428
b. Special reserve	Under Article 82 of Union Law No. 10 of 1980	222,873
c. General reserve	As per Shareholders' resolutions on recommendation of Board	9,311
d. Retained Earnings	After transfer of Net Profit but before appropriations for the year	493,998
Tier 1 Capital - Subtotal		2,028,011
Tier 2 capital		
General Provisions	In terms of rules laid down by the Central Bank of the UAE	48,540
Revaluation Reserve	Revaluation reserve on Bank's property assets	21,671
Cumulative changes in fair values	Unrealised loss on available-for-sale investments & derivatives held for cash flow hedge	(15,057)
Less: Deductions for inadmissible items	Revaluation reserve on Bank's property assets	(21,671)
Tier 2 Capital - Subtotal		33,483
Tier 3 capital		-
Total eligible capital after deductions - Capital Base		2,061,494

B. CAPITAL ADEQUACY

a) Qualitative Disclosures

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

Risk Management objectives and policies

The Bank has an established Group Risk Department headed by the Chief Risk Officer (CRO). This Department is responsible for managing all the three risk segments, namely, Credit, Market and Operational risks. The Bank has also created the Board Audit and Risk Committee (BARC), which approves 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 co-ordinated and well structured manner.

- Credit Risk

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

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

- Market Risk

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

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 positions 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.

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

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

- Operational Risk

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

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

B. CAPITAL ADEQUACY (continued)

b) Quantitative Disclosures

Capital Requirements

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

(AED 000's)

Category	Risk Weighted Assets	Capital
1. Credit Risk - Standardised Approach	9,480,711	
2. Market Risk - Standardised Approach	2,375	
3. Operational Risk - Basic Indicator Approach	646,025	
Total Risk Weighted Assets	10,129,111	
Capital Base		2,061,494
Capital Ratio (%)		
a. Total for the Bank		20.4%
b. Tier 1 ratio only for the Bank		20.0%

C. CREDIT RISK - UNDER STANDARDIZED APPROACH

1. Details of Exposures, Risk Mitigants and Risk Weighted Assets

(AED 000's)

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

C. CREDIT RISK - UNDER STANDARDIZED APPROACH (continued)

2. Gross Exposure under Standardized Approach based on External Ratings

a) Qualitative Disclosures

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

b) Quantitative

			(AED 000's)
	Gross Exposure before Credit Risk Mitigants (CRM)		
Category	**Rated**	**Unrated**	**Total**
Claims On Sovereigns	1,005,334	-	1,005,334
Claims On Non-Central Govt Public Sector Entities (PSEs)	352,316	-	352,316
Claims On Multi Lateral Development Banks	-	-	-
Claims On Banks	1,381,878	301,411	1,683,289
Claims On Securities Firms	-	-	-
Claims On Corporates	80,745	7,496,488	7,577,233
Claims Included In The Regulatory Retail Portfolio		1,402,097	1,402,097
Claims Secured By Residential Property		679,831	679,831
Claims Secured By Commercial Real Estate		601,237	601,237
Past Due Loans (Impaired)		72,235	72,235
Higher-Risk Categories		-	-
Other Assets		213,470	213,470
Claims On Securitised Assets		-	-
Credit Derivatives (Banks Selling Protection)		-	-
TOTAL	2,820,273	10,766,769	13,587,042

3. Exposures 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 at 31st December 2011.

4. Exposures 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 at 31st December 2011.

5. Exposures by Economic Sector

Exposures to difference economic sectors are governed by sectoral limits set by the UAE Central Bank, as well as by Bank's own policies. Hence, the exposures are well diversified over different economic sectors. For details kindly refer to Note 23 "Risk Management - Credit Risk" of Notes to the Financial Statements at 31st December 2011.

6. Exposures by Residual Contractual Maturity

For details kindly refer to Note 23 "Risk Management - Liquidity Risk" of Notes to the Financial Statements at 31st December 2011.

C. CREDIT RISK - UNDER STANDARDIZED APPROACH (continued)

7. Past due and impaired loans

a) Qualitative Disclosures

Definition 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 event(s) which 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 reorganisation, (c) default or delinquency in interest or principal payments (d) conduct of the account not being in line with the Central Bank of UAE guidelines, (e) where observable data indicates that there is a measurable decrease in the estimated future cash flows, and (f) where the entity is in arrears or facing economic conditions that correlate with defaults.

Description of approaches followed for creating Specific and General Provisions:

Provisions are created against impairments in terms of Central Bank of UAE guidelines and International Financial Reporting Standards.

Specific

Specific provisioning on loans and advances are made as follows:
- on Corporate accounts provisions are made in compliance with the above, in particular, with IAS 39 standards
- on Retail accounts provisions are made as given below:

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

General

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

C. CREDIT RISK - UNDER STANDARDIZED APPROACH (continued)

7. Past due and impaired loans (continued)

b) Quantitative

- Past due & impaired Loans by Industry Segment **(AED 000's)**

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

- Past due & impaired Loans by Geographical Region **(AED 000's)**

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

- Reconciliation of changes in Provision for Impaired Loans

For details kindly refer to Note 7 "Loans & Advances" of Notes to the Financial Statements at 31st December 2011.
Amounts of related provisions reported in the note include General Provision amounting to AED 48,540 (thousands) reported under Tier 2 Capital in these disclosures.

8. Credit Risk Mitigation - Disclosures for Standardized Approach

a) Qualitative Disclosures

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

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

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

b) Quantitative Disclosures

(AED 000's)

		Exposures	Risk Weighted Assets
Gross Exposure prior to Credit Risk Mitigation		13,587,042	
Credit Risk Mitigants			
- Direct deductions:			
Exposure covered by on-balance sheet netting agreements		0	
- Substitution of Risk weights:			
Exposure covered by Guarantees			
from	100%	(307,776)	
to	20%	197,179	
	50%	97,190	
	100%	10,307	
	150%	3,100	
Exposure covered by Collaterals under simple approach			
from	100%	(615,896)	
to	0%	615,896	
Net Exposures after Credit Risk Mitigation		**13,587,042**	**9,480,711**

D. MARKET RISK - UNDER STANDARDISED APPROACH

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

(AED 000's)

Category of Risk	Capital required	Risk Weighted Assets equivalent
Interest rate risk	117	
Equity position risk	-	
Foreign exchange risk	168	
Commodity risk	-	
Options risk	-	
Total Capital Requirement	**285**	**2,375**

2. Interest Rate Risk

The Bank has nominal Interest Rate Risk on Trading Book, as shown above. For details concerning Interest Rate Risk on Banking Book, kindly refer to Note 23 "Risk Management - Market Risk - Interest Rate Risk" of Notes to the Financial Statements at 31st December 2011.

3. Equity Position Risk

The Bank has no Equity Position on Trading Book, hence, Capital required is nil. However, there are a few investments in Banking book under available-for-sale category. For details please refer to Note 13 "Investments" of Notes to the Financial Statements at 31st December 2011.

4. Foreign Exchange Risk

The amount shown in (1) 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.

5. Options risk

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

6. Revaluation Gains/(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 changes are given in Note 19 "Cumulative changes in fair values" in Notes to the Financial Statements at 31st December 2011.

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

(AED 000's)

	Amount
Amount added to / (deducted from) in Tier 1 capital	-
Amount added to / (deducted from) in Tier 2 capital	(15,057)
Total	(15,057)

E. OPERATIONAL RISK - UNDER BASIC INDICATOR APPROACH

Computation of Capital Charge and Risk Weighted Assets equivalent for Operational Risks is as follows at 31st December 2011:

			(AED 000's)
		Amount	
Gross Income (including Interest in suspense)	2009	475,349	
	2010	488,451	
	2011	586,665	
		1,550,465	
3-year average		516,822	
Beta factor		15%	
Capital charge			77,523
Risk Weighted Assets equivalent (based on Capital requirement of 12%)			646,025