



The Chairman

رئيس مجلس الإدارة

Directors' Report

Year ended 31 December 2012

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

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

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

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

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



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

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

	AED '000
Opening balance in Retained Earnings at 1 January	424,368
Profit for the year	409,818
Transfer from Revaluation Reserve	613
Dividend paid relating to 2011	(199,280)
Balance available for appropriation	635,519
<u>Proposed Appropriation of profit</u>	
Transfer to Special Reserve	(40,982)
Transfer to Statutory Reserve	(40,982)
Directors' Remuneration	(8,400)
Closing balance in Retained Earnings at 31 December	545,155

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

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



forward in respect of product innovation and other developments, thereby ensuring that the Bank's recent successes are sustained.

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

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

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

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

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

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

A handwritten signature in black ink, appearing to be the name 'F. S.', is written over the end of the final paragraph.



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

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

Fajsal Bin Sultan Bin Salem Al Qassimi

Chairman

23 January 2013