التقرير السنوي

٢٠١١

بنك أم القيوين
NBQ

Annual Report

2011

بنك أم القيوين

NBQ

His Highness Sheikh

SAUD BIN RASHID AL-MUALLA

Member of the Supreme Council of the United Arab Emirates

&

Ruler of Umm Al Qaiwain

His Highness Sheikh

RASHID BIN SAUD BIN RASHID AL-MUALLA

Crown Prince of Umm Al Qaiwain

CONTENT

Umm Al Qaiwain Branches

NBQ Building (Head Office)
King Faisal Street
P.O. Box 800
Umm Al Qaiwain

Falaj Al Mualla Branch
NBQ Building
Shaikh Zayed Street
P.O. Box 11074 Falaj Al Mualla

Al Salma Branch
Al Itihad Road
P.O. Box 800
Umm Al Qaiwain

Dubai Branches

Dubai Main Branch
NBQ Building
Khalid Bin Al Waleed Street
P.O. Box 9175 Dubai

Deira Branch
Opposite Dubai Police Head Quarters
Al Ittihad Street
P.O. Box 8898 Deira, Dubai

Al Awir Branch
Ras Al Khor
P.O. Box 296363 Dubai

Al Ghusais Branch
Junction of Halab St. and Damascus St.,
Near Spinneys
P.O. Box 232883 Dubai

Sheikh Zayed Road Branch
Al Shafar Building, Sheikh Zayed Road
Al Qouz Industrial No.1
P.O. Box 37753 Al Quoz, Dubai

Abu Dhabi Branches

Abu Dhabi Branch
Hamdan Bin Mohammed Street (No.5)
P.O. Box 3915 Abu Dhabi

Mussafah Branch
P.O. Box 9770 Abu Dhabi

Al Ain Branch
Ali Bin talib Street
P.O. Box 17888 Al Ain

Sharjah Branches

Sharjah Branch
King Faisal Street
P.O. Box 23000 Sharjah

Sharjah Industrial Branch
Khansaheb Building
Sharjah Industrial Number 10
Third Industrial Street
P.O. Box 80400

Ajman Branches

City Center Branch
Ajman City Center
P.O. Box 4133 Ajman

Masfout Branch
NBQ Building
Main Street
P.O. Box 12550 Masfout, Ajman

Fujairah Branch

Fujairah Branch
Fujairah Insurance Co. Building
Hamad Bin Abdulla Road
P.O. Box 1444 Fujairah

Ras Al Khaimah Branch

Ras Al Khaimah Branch
Corniche Al Qawasim Road
P.O. Box 32253
Ras Al Khaimah

Board of Directors

H.H. Sheikh Rashid Bin Saud Bin Rashid Al-Mualla
Chairman

Mr. Abdulla Ahmad Al Moosa
Deputy Chairman

Sheikh Nasser Bin Rashid Al-Moalla
Managing Director & Chief Executive Officer

Mr. Abduljaleel Yousuf Darwish
Director

Mr. Issa Abdulrahman Ateeq
Director

Mr. Salem Abdulla Salem Al Housani
Director

Mr. Marwan Abdulla Hassan Al Rostamani
Director

Management

Sheikh Nasser Bin Rashid Al-Moalla
Managing Director & Chief Executive Officer

Mr. Ramachandra Iyer
General Manager

Chairman's Report

On behalf of the Board members, I am pleased to welcome you all to the 29th annual general meeting and present the annual report of the Board of Directors for the year 2011.

2011 proved to be another difficult year for the banking industry with the global uncertain economic conditions enhanced by the US debt ceiling crises, downgrading of several sovereigns and corporates due to the sovereign debt crises of the Eurozone. These external factors not only played a key role in limiting the growth opportunities for the UAE banking sector, but also increased the borrowing costs and availability of funding across the globe. The National Bank of Umm Al-Qaiwain (NBQ) adopted a cautious approach towards credit expansion and concentrated its efforts on close monitoring of the existing credit portfolio of accounts to arrest any quality deterioration. Following a policy of balancing prudence with profitability, despite difficult conditions, NBQ has delivered a robust performance during 2011 with a net profit of AED 320.0 million. As at end of 2011, total assets amounted to AED 11.709 billion, Loans portfolio AED6.750 billion, Customer deposits AED 7.089 billion and Investment portfolio AED 1.051 billion.

Shareholders' funds increased to AED 3.318 billion as at 31/12/2011 as against AED 3.195 billion as at 31/12/2010. Earnings per share was 20 fils for the year ending 31/12/2011. Bank's paid up Capital increased to AED 1.600 billion in 2011 from AED 1.568 billion as at end of 2010 due to declaration of 2.03 % bonus shares for the year 2010.

The conservative policy of maintaining high liquidity ratios adopted by NBQ over past several years has once again underlined its importance following the global financial crises and it's after effects for the UAE economy.In view of maintaining a strong liquidity ratio, during 2011, NBQ prepaid the Tier 2 loan of AED 578.4 million, received from the Ministry of Finance, during 2011 in addition to the prepayment of a bilateral/syndicated bank loans of AED 110.1 million. With this repayment, the Bank has no bilateral/syndicated loans outstanding. Despite this prepayment, the Capital Adequacy ratio of 28.3 % as at end of 2011 continues to be strong and is well over the minimum 12% stipulated by the UAE Central Bank. Likewise the Tier 1 ratio of 27.6 % is well in excess of the minimum 7% stipulated by the UAE Central Bank.

In order to strengthen the shareholders funds further by retaining a portion of the profit earned, the Board has recommended 15% cash dividend for 2011.

For 2012, our outlook remains positive and our focus remains on our proven strategies of ensuring a prudent balance sheet growth and with our commitment of providing superior returns to our shareholders year on year. With careful management of sound balance sheet discipline, we remain well positioned to take advantage of business growth opportunities as they arise during this year.

On behalf of the Board of Directors, I would like to express my gratitude to His Highness Sheikh Saud Bin Rashid Al Moalla – Ruler of Umm Al-Qaiwain and Member of the supreme Council of the United Arab Emirates – for his wise leadership and vision, and his continued support for the development of NBQ.

I would like to state my appreciation for the ongoing initiatives and support of the UAE Central Bank to regulate the country's financial sector, and for their helpful guidance to NBQ during this year. Equally important has been the steadfast confidence of our shareholders, the loyalty of our customers and business partners; and the dedicated efforts of our management and staff. Together they have contributed to the success of NBQ and continue to provide us with the strength and determination to face all future challenges.

RASHID BIN SAUD AL MUALLA

Chairman.

Management Review

FINANCIAL OVERVIEW

The year 2011 has indeed been a very challenging one for the banking industry in the region due to the continuing downturn across the major economies and uncertain credit environment, coupled with the Sovereign debt crises in the Eurozone. NBQ continued to focus on closely monitoring its asset quality, ensure strong liquidity and strengthen its infrastructure, at the same time maintaining acceptable profitability levels. The Bank, therefore, continued to invest in IT infrastructure upgrades, distribution channels and human capital to leverage its franchise and to create a springboard for future growth.

In spite of the odds, I am pleased to report that NBQ has recorded a net profit of AED 320.0 million for the year. Net interest income of AED 511.16 million was achieved in 2011.

The Bank continues to maintain a prudent provisioning policy, both for its retail and corporate portfolios and in line with the latest Central Bank guidelines. As a result of various proactive measures initiated by the Bank since the onset of the global financial crisis, the Bank was able to reduce the incidence of provisions on impaired assets, net of recoveries, to AED 62.11 million in 2011 compared to AED 94.25 million in 2010.

Total assets stood at AED 11.709 billion at the end of 2011 while Loans and Customer deposits portfolios amounted to AED 6.750 billion and AED 7.089 billion respectively.

The Share capital of the Bank as at 31st Dec 2011 increased to AED 1.600 billion from AED 1.568 billion as at 31st Dec 2010 due to the payment of 2.03 % stock dividend for the year 2010. The shareholders equity of AED 3.318 billion as at 31st Dec 2011 increased from AED 3.195 billion at 31st Dec 2010 and the Earnings Per Share as at 31st Dec 2011 is 20 fils.

In view of the vastly improved liquidity position, NBQ arranged prepayment of the Tier 2 funds of AED 578.4 million received from the Ministry of Finance, during the year, in addition to the prepayment of bilateral/syndicated loans amounting AED 110.1 million. Our focus on balance sheet optimization has resulted in strong Capital adequacy and liquidity ratios and significantly improved funding profile.

Despite the prepayment of the Tier 2 loan, NBQ remains well capitalized. As at 31/12/2011, the Bank's Capital Adequacy ratio of 28.3%, is well over the UAE Central Bank minimum requirement of 12% and the Basel II accord ratio of 8%. The Tier 1 ratio of 27.6 % as at 31/12/2011, is well in excess of the minimum ratio of 7% stipulated by the UAE Central Bank.

TREASURY AND INVESTMENTS

The European Debt Crisis and downgrading of US Sovereign Rating by Standard and Poor resulted in a lot of volatility in the capital and bond markets. The domestic bond market was active with some new issuance from banks and businesses to take advantage of lower interest rates.

During the year, the Bank continued its focus on investment in Sovereign and other high quality bank bonds where it could earn decent returns while maintaining its low risk profile. The Bank also took advantage of the low stock prices to continue to boost its equity portfolio on a selective basis.

The Bank's Dealing Room continues its quality services to the customers of the bank while focusing on enhancing the business.

Management Review (continued)

WHOLESALE BANKING

The Bank maintained its cautious approach towards the Wholesale Banking assets. The priority was to consolidate and generate efficiencies within the portfolio to ensure the quality of the asset base is maintained. Credit expansion was limited due to the overall uncertain economic climate. The energies were focused to stay closer to the client, gain insight into the health of their business and provide the needed support and guidance.

RETAIL BANKING

The Retail Banking network of the Bank consists of 17 branches. The Bank provides a full range of products, developed to serve individual and small business clients with a variety of deposit and lending propositions.

NBQ also offers a full range of Visa credit and debit cards enhanced with the Chip technology for customer safety. We provide unique prepaid cards and Rateb payroll cards to supplement the cards program. The Bank was very successful in participating in the Ministry's WPS initiative and is one of the leading service providers in this area.

We have enhanced our Islamic products offering through our full fledged Islamic banking branch which provides range of Shari'ah compliant products and services to meet our customer needs. One of the main focus areas to increase the market share is the Housing Loan scheme offered as Bayt Al Tayseer Scheme under Islamic finance to salaried UAE Nationals. Among our loan products, we are witnessing good demand from UAE Nationals for the Shari'ah compliant Housing Finance scheme and various other Islamic products.

Efforts towards implementation of the overall comprehensive retail banking strategy of process re-engineering; continuous training of staff and migrating to new upgraded core banking platforms were maintained throughout the year. Many initiatives to enhance performance of the delivery channels and improve service standards to customers were implemented.

The Bank opened Electronic Banking Units (EBU) at various locations throughout the country provided with a variety of ATMs and Cash deposit machines. Electronic machines at branches were also upgraded and off site ATM network enhanced. This has improved access to customers to the Bank's electronic channels and helped to provide fast and convenient service to our customers.

RISK MANAGEMENT:

Credit Risk

In line with the best international practices, the Bank follows a well defined organizational structure with Relationship Business Units at the Front office, Credit Risk and centralized approval functions at the Mid-office and Credit Operations & Administration at the back office. The three tier segregated functioning provides the maximum level of risk assurance to the Bank's credit functions.

The Bank has well laid out credit risk policies which are scrupulously followed at all levels.

Credit risk policy manual is updated on an ongoing basis as per regulatory and emerging business requirements.

Credit processing and Risk Rating system for wholesale banking is in place to ensure standardization and proper risk assessment in the appraisal process. As part of pro-active credit monitoring, tracking of Early Warning Signals, independent physical inspection of projects and covenant monitoring are given due emphasis through Risk Containment Unit. Curative function including management of non-performing loans is managed by a separate Remedial Unit in Credit Risk Department.

Concentration levels at single obligor and sectoral levels are monitored by Portfolio Management Unit.

BASEL II IMPLEMENTATION:

The Bank has complied with all Central Bank of UAE norms for standardized approach for computation of Capital Adequacy ratios since 2007. The Bank has also initiated compliance under Pillar 2 and Pillar 3 guidelines with the completion of the second ICAAP report.

During the year, the Bank repaid Tier II debt and still maintains a Capital Adequacy ratio of 28.3%, keeping a substantial buffer between available capital and regulatory capital to cover any unexpected losses from other risks.

The Bank is awaiting final UAE Central Bank guidelines for implementation of FIRB Credit Risk approach. However, as per Basel II Accord, the Bank has initiated measures for implementing Credit Ratings which comply with the minimum requirements for adoption of Foundation Internal Ratings Based approach.

Management Review (continued)

Market Risk:

The Bank adopts a comprehensive approach to market risk management for its trading, investment and asset/liability portfolios. For market risk management, the Bank uses measures like position, gaps and sensitivities, supplemented by Stress Tests and Scenario Analysis.

The Bank has in place well-defined policies to control and monitor its market risk functions and these include management practices, procedures, prudential risk limits, review mechanisms and reporting systems. Stress tests are regularly carried out to assess liquidity risk & interest rate risk in the banking book and equity price risk in the trading book. The results show that the Bank is comfortably placed and in line with the risk profile of the Bank.

Operational Risk

Operational risks in the Bank are managed through a comprehensive control framework which focuses on identification, assessment, monitoring and control /mitigation of risk within all business units of the bank. Key Operational Risk areas are identified and monitored on the basis of Risk and Control Self Assessment (RCSA) of units and periodic reviews by the OR Unit.

As per the mandate from CBUAE, the Bank has adopted Basic Indicator Approach for computing capital charge for operational risk. With an effective risk framework, steps are being taken to eventually migrate to advanced approaches for capital computation which may result in significant savings for the Bank.

BUSINESS CONTINGENCY AND CONTINUITY PLAN:

In order to mitigate risks arising out of disruptions in business in the event of disaster and with increasing dependency of critical business services on the IT system, it is more important than ever to proactively identify, prioritize and resolve threats to service.

To achieve this objective, Bank has formulated the framework, policies and guidelines for BCP for NBQ. Currently the Bank is in the process of concluding the implementation the comprehensive IT DR setup.

Post implementation of BCP, Bank would be conducting ongoing testing and shall aim to move towards BS-25999 certification of Business Continuity and Management System.

INFORMATION TECHNOLOGY & OPERATIONS:

The Bank successfully completed upgrade of the Enterprise IT infrastructure during the year 2011. A 24/7 IT Network Operations Centre has been implemented, with an upgraded Data Centre, to ensure the continuous availability of Bank's applications & information infrastructure. This facilitates swift response to any IT infrastructure issues.

The upgrade of the Bank's Core Banking application and IT support to the Bank's growing ATM network has also assisted in maintaining round the clock availability of the Bank's electronic services to customers.

HUMAN RESOURCES:

Entry level positions to fresh UAE National graduates were continuously offered throughout the year to reinforce our commitment to strengthening the UAE Labour force in NBQ. We are pleased to add that as at end of December 2011, we had a UAE national staff strength of over 50%, which is the highest amongst the banks in the UAE banks.

The Bank reviewed, revamped and re-launched its Talent Management program for aspiring UAE National graduates whereby they are placed on fast track learning and development programs. Our aim is to further cement our commitment to building strong and robust careers for our UAE National Graduates enabling them to become tomorrow's leaders.

COMUNITY RELATIONS

NBQ, throughout its history, has continually contributed to the social well being of the Emirates in which it does business. The Bank sustained its support to a range of charitable, educational, medical and sporting organizations and events throughout 2011.

CONCLUSION

I would like to extend my appreciation and thanks to our shareholders for their continuous support, to our customers who stayed loyal over all these years and to the Management team and all the staff for their dedication and commitment.

Nasser Bin Rashid Al-Moalla

Managing Director & Chief Executive Officer

Independent Auditor's Report

The Shareholders

National Bank of Umm Al-Qaiwain (psc)

Umm Al-Qaiwain

United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **National Bank of Umm Al-Qaiwain (psc) (the 'Bank') and Subsidiary (together the 'Group'), Umm Al-Qaiwain, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of National Bank of Umm Al-**Qaiwain (psc) and Subsidiary, Umm Al-Qaiwain, United Arab Emirates** as at 31 December 2011, and their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Group has maintained proper books of account. The information contained in the directors' report relating to the consolidated financial statements is in agreement with the books. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended) or the Articles of Association of the group companies which might have materially affected the financial position of the Group or their financial performance.

Deloitte & Touche (M.E.)
Samir Madbak
Registration No. 386
2 February 2012

Consolidated statement of financial position
At 31 December 2011

	Notes	2011 AED '000	2010 AED '000
Assets			
Cash and balances with the UAE Central Bank	5	**798,061**	2,370,220
Due from other banks	6	**1,733,284**	830,577
Loans and advances	7	**6,750,112**	7,714,801
Investment securities	8	**1,051,936**	744,745
Customers' acceptances		**120,944**	257,904
Property and equipment	9	**94,642**	104,840
Other assets	10	**1,160,122**	1,212,213
Total assets		**11,709,101**	13,235,300
Liabilities			
Due to other banks	11	**590**	110,750
Customers' deposits	12	**7,089,563**	7,917,755
Customers' acceptances		**120,944**	257,904
Medium term loan	13	**-**	578,453
Other liabilities	14	**1,179,927**	1,174,877
Total liabilities		**8,391,024**	10,039,739
Shareholders' equity			
Share capital	15	**1,600,000**	1,568,160
Statutory reserve	16	**1,019,266**	1,019,266
General reserve	17	**6,440**	6,440
Cumulative change in fair values		**(6,756)**	2,574
Retained earnings		**699,127**	599,121
Total shareholders' equity		**3,318,077**	3,195,561
Total liabilities and shareholders' equity		**11,709,101**	13,235,300
Commitments and contingent liabilities	18	**7,100,257**	8,485,937

The accompanying notes form an integral part of these consolidated financial statements.

Rashid Bin Saud Al-Mo'alla
Chairman

Nasser Bin Rashid Al - Mo'alla
Managing Director and Chief Executive Officer

Consolidated Statement of Income
For the year ended 31 December 2011

	Notes	**2011 AED '000**	2010 AED '000
Interest income	19	**620,495**	701,974
Interest expense	19	**(109,327)**	(174,968)
Net interest income		**511,168**	527,006
Fee and commission income		**56,962**	73,869
Other operating income	20	**19,599**	20,369
Gross income		**587,729**	621,244
Operating expenses	21	**(197,131)**	(182,921)
Operating income		**390,598**	438,323
Investment (losses)/gains	22	**(8,459)**	6,733
Impairment losses on held to maturity investments		**(10,250)**	(17,093)
Provision for impairment of loans and advances	7	**(51,864)**	(77,165)
Profit for the year		**320,025**	350,798
Basic earnings per share (in AED)	24	**0.20**	0.22

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2011

	2011 AED '000	2010 AED '000
Profit for the year	**320,025**	350,798
Other comprehensive (loss)/income		
Net (loss)/gain on available-for-sale investments recognised directly in equity	**(11,122)**	2,438
Transfer from equity on sale of available-for-sale investments	**192**	(1,577)
Impairment losses on available-for-sale investments	**1,600**	5,558
Other comprehensive (loss)/income for the year	**(9,330)**	6,419
Total comprehensive income for the year	**310,695**	357,217

Consolidated statement of changes in equity for the year ended 31 December 2011

	Share capital AED '000	**Statutory reserve AED '000**	**General reserve AED '000**	**Cumulative change in fair values AED '000**	**Retained earnings AED '000**	**Total AED '000**
Balance at 31 December 2009	1,452,000	1,019,266	6,440	(3,845)	538,723	3,012,584
Profit for the year	-	-	-	-	350,798	350,798
Other comprehensive income for the year	-	-	-	6,419	-	6,419
Total comprehensive income for the year	-	-	-	6,419	350,798	357,217
Bonus shares issued during the year (Note 15)	116,160	-	-	-	(116,160)	-
Dividend paid	-	-	-	-	(174,240)	(174,240)
Balance at 31 December 2010	1,568,160	1,019,266	6,440	2,574	599,121	3,195,561
Profit for the year	-	-	-	-	320,025	320,025
Other comprehensive loss for the year	-	-	-	(9,330)	-	(9,330)
Total comprehensive income for the year	-	-	-	(9,330)	320,025	310,695
Bonus shares issued during the year (Note 15)	31,840	-	-	-	(31,840)	-
Dividend paid	-	-	-	-	(188,179)	(188,179)
Balance at 31 December 2011	**1,600,000**	**1,019,266**	**6,440**	**(6,756)**	**699,127**	**3,318,077**

The accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows for the year ended 31 December 2011

	2011 AED '000	2010 AED '000
Cash flows from operating activities		
Profit for the year	**320,025**	**350,798**
Adjustments:		
Provision for asset impairment	**62,114**	**94,258**
Depreciation for property and equipment	**16,671**	**14,768**
Decrease/(increase) in fair value of investment securities at fair value through profit and loss - held for trading	**7,374**	**(383)**
Premium amortised	**762**	**454**
Loss/(gain) on sale of investment in securities	**138**	**(11,733)**
Impairment losses on investment securities available-for-sale	**1,600**	**5,558**
Dividend income	**(1,765)**	**(1,287)**
(Gain)/loss on disposal of property and equipment	**(20)**	**6**
Operating cash flows before changes in operating assets and liabilities	**406,899**	**452,439**
Increase in syndicated term loans to banks	**(45,913)**	-
Increase in statutory deposit with the UAE Central Bank	**(31,642)**	**(9,517)**
Decrease in loans and advances net of provision and amounts written off	**912,825**	**495,623**
Decrease/(increase) other assets	**52,091**	**(1,075,618)**
Decrease in due to other banks	**(110,160)**	**(1,113,876)**
(Decrease)/increase in customers' deposits	**(828,192)**	**551,523**
(Decrease) in medium term loans	**(578,453)**	**-**
Increase in other liabilities	**4,830**	**72,649**
Net cash used in operating activities	**(217,715)**	**(626,777)**
Cash flows from investing activities		
Purchase of property and equipment	**(6,531)**	**(27,943)**
Proceeds from sale of property and equipment	**78**	2
Purchase of investment in securities	**(399,583)**	**(880,190)**
Proceeds from sale of investment in securities	**62,938**	**607,289**
Dividend received	**1,765**	**1,287**
Net cash used in investing activities	**(341,333)**	**(299,555)**
Cash flows from financing activities		
Dividend paid	**(187,959)**	**(174,103)**
Net cash used in financing activities	**(187,959)**	**(174,103)**
Net decrease in cash and cash equivalents	**(747,007)**	**(1,100,435)**
Cash and cash equivalents, at the beginning of the year	**2,927,987**	**4,028,422**
Cash and cash equivalents, at the end of the year (Note 27)	**2,180,980**	**2,927,987**

The accompanying notes form an integral part of these consolidated financial statements.

Notes to the consolidated financial statements for the year ended 31 December 2011

1. General information

National Bank of Umm Al-Qaiwain (psc) (the "Bank") is a Public Shareholding Company incorporated in the Emirate of Umm Al-Qaiwain ("UAQ") in the United Arab Emirates ("U.A.E.") by Amiri Decree Number (1) on January 5, 1982, issued by His Highness, the Ruler of Umm Al-Qaiwain, and commenced its operations with effect from August 1, 1982. The "Group" comprises National Bank of Umm Al-Qaiwain (psc), Umm Al-Qaiwain, and Twin Towns Marketing Management (L.L.C.), Dubai (see Note 3.3). The address of the Bank's registered Head Office is P.O. Box 800, Umm Al-Qaiwain, United Arab Emirates.The Bank is engaged in providing retail and corporate banking services through a network of 17 branches and 12 electronic banking service units in U.A.E.

2. Application of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised International Financial Reporting Standards (IFRSs) adopted with no material effect on the consolidated financial statements

The following new and revised IFRSs have been adopted in these consolidated financial statements. The adoption of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

New and revised IFRSs	***Effective for annual periods beginning on or after***
Amendments to IFRS 1 relating to Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters	1 July 2010
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
IAS 24 Related Party Disclosures (revised in 2009)	1 January 2011
Amendments to IFRIC 14 relating to Prepayments of a Minimum Funding Requirement	1 January 2011
Improvements to IFRSs issued in 2010 covering amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13	1 January 2011, except IFRS 3 and IAS 27 which are effective from 1 July 2010
Amendment to IAS 32 Financial Instruments: Presentation, relating to Classification of Rights Issues	1 February 2010

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted

The Bank has not yet adopted the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	***Effective for annual periods beginning on or after***
Amendments to IAS 1 Presentation of Financial Statements: relating to grouping items recognised in other comprehensive income.	1 July 2012
Amendments to IAS 12: Income Taxes relating to Deferred Tax: Recovery of Underlying Assets	1 January 2012
IAS 19 Employee Benefits (revised 2011)	1 January 2013
*IAS 27 Separate Financial Statements (revised in 2011)**	1 January 2013
*IAS 28 Investments in Associates and Joint Ventures (revised in 2011)**	1 January 2013
Amendments to IFRS 1 Removal of Fixed Dates for First-Time Adopter	1 July 2011
Amendments to IFRS 1 Severe Hyperinflation	1 July 2011

2. Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued)

Amendments to IFRS 7 Financial Instruments: Disclosures, relating to Disclosures on Transfers of Financial Assets	1 July 2011
IFRS 9 Financial Instruments (as amended in 2010)	1 January 2015
*IFRS 10 Consolidated Financial Statements**	1 January 2013
*IFRS 11 Joint Arrangements**	1 January 2013
*IFRS 12 Disclosure of Interests in Other Entities**	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IFRS 7 Financial Instruments: Disclosures- amendments enhancing disclosures about offsetting of financial assets and financial liabilities	1 January 2013 and interim periods within those periods
IFRS 7 Financial Instruments: Disclosures- amendments requiring disclosures about the initial application of IFRS 9	1 January 2015 (or otherwise when IFRS 9 is first adopted)
IAS 32 Financial Instruments: Presentation- amendments to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013

* In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these amendments will be adopted in the Group's consolidated financial statements for the period commencing 1 January 2012 or as and when applicable. Directors anticipate that the adoption of these standards and interpretation in future periods will have no material impact on the consolidated financial statements of Group in the period of initial application.

3. Significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Bank are expressed in Arab Emirates Dirhams (in thousands), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

3.3 Basis of consolidation

The consolidated financial statements of National Bank of Umm Al-Qaiwain (psc) and Subsidiary (the "Group") incorporate the financial statements of the Bank and entity controlled by the Bank (its Subsidiary). Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Subsidiary:

Details of the Bank's subsidiary as at 31 December 2011 is as follows:

Name of subsidiary	Proportion of ownership interest	Country of incorporation	Principal activity
Twin Towns Marketing Management (L.L.C.)	99.33%	UAE	Marketing management

The remaining equity in the above subsidiary is held by the Bank beneficially through nominee arrangements.

3. Significant accounting policies (continued)

3.4 Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

3.5 Financial assets

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. It consists of cash and balances with the U.A.E. Central Bank, due from other banks, loans and advances and customers' acceptances.

Loans and advances

Loans and advances are recognised when cash is advanced to the borrowers and are carried at amortised cost using effective interest rate method.

Impairment of loans and advances

Individually assessed loans

Individually assessed loans represent mainly, corporate and commercial loans which are assessed individually in order to determine whether there exists any objective evidence that a loan is impaired. Loans are classified as impaired as soon as there is doubt about the borrower's ability to meet payment obligations to the Bank in accordance with the original contractual terms.

Impaired loans are measured on the basis of the present value of expected future cash flows including collateral if any and the impairment loss is calculated based on the shortfall in the loans carrying value compared to the net present value of future cash flows.

Collectively assessed loans

Impairment losses of collectively assessed loans include the allowances calculated on:

a) Performing loans

b) Small value loans with common features, which are not individually significant.

Past due but not impaired loans

Loans and securities where contractual interest or principal payments are past due but the Bank believes that the assets are not impaired on the basis of the level of security/collateral available and/ or the stage of collection of amounts owed to the Bank.

Performing loans

The estimated impairment is calculated by the Bank's management for each identified portfolio based on historical experience and the assessed inherent losses which are reflected by the economic and credit conditions.

Small value loans with common features, which are not individually significant

Small value loans represent mainly credit card dues and other loans which are not individually significant in value. Impairment of such loans is assessed based on ageing analysis of each bucket and impairment losses provided accordingly.

Re-ageing policy

The Bank has set out its re-ageing policy as part of the Credit Risk Policy. The Bank identifies forward shifting of past due date as re-ageing and complies with the Basel II guidelines on the re-ageing policy. This includes re-ageing criteria separately for normal and delinquent accounts, approval authorities, minimum age of the facility before it is eligible for re-ageing, maximum number of re-ageing per facility etc. Re-ageing is always considered based on reassessment of borrower's repayment capacity due to revised economic conditions.

3. Significant accounting policies (continued)

3.5 Financial assets (continued)

Impairment of loans and advances (continued)

Collateral pending sale

The Bank acquires real estate and other collateral in settlement of impaired loans and advances only if immediate sale is not feasible. The Bank's policy is to dispose of any such acquired real estate and other collateral at the earliest. The carrying value of such collateral is the lower of the net realisable value of the loans and advances and the current fair value of such assets at the date of acquisition. Gains or losses on disposal and unrealised losses on revaluation, are recognised in the consolidated statement of income.

Investment securities

The Bank classifies its investment securities in the following categories: financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets. Management determines the classification of the investments at initial recognition.

i) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets are designated at fair value through profit or loss when certain investments, such as equity investments, are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

ii) Held-to-maturity

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Where the Bank decides to sell other than an insignificant amount of held-to-maturity assets, the entire category is considered to be tainted and reclassified as available-for-sale.

iii) Available-for-sale

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

Initial recognition

Purchases and sales of financial assets at fair value through profit or loss, held to maturity and available-for-sale are recognised on trade date which is the date on which the Bank commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated statement of income.

Subsequent measurement

Available-for-sale investments and financial assets at fair value through profit or loss are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognised or impaired. Once the available-for-sale financial asset is derecognised or impaired, the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly recognised in the consolidated statement of income.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as interest income. Dividends on equity instruments are recognised in the consolidated statement of income when the Bank's right to receive payment is established.

3. Significant accounting policies (continued)

3.5 Financial assets (continued)

***Investment securities** (continued)*

Subsequent measurement (continued)

The Bank assesses at each reporting date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the consolidated statement of income. Impairment losses recognised in the consolidated statement of income on available-for-sale equity instruments are not reversed through the consolidated statement of income.

Amortised cost of a financial asset/liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount and the maturity amount and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Derecognition of financial assets

The Bank derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognises its retained interest in the asset and an associated liability for amounts it may have to pay.

3.6 Financial liabilities and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Financial liabilities, including customers' deposits, customers' acceptances and due to other banks, are initially measured at fair value, net of transaction costs.

3. Significant accounting policies (continued)

3.6 Financial liabilities and equity instruments (continued)

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Derecognition of financial liabilities

The Bank derecognises financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire.

3.7 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	20
Computers and equipment	1 - 5
Furniture and fixtures	5
Leasehold improvements	3 - 5
Motor vehicles	5

Land is not depreciated, as it is deemed to have an infinite life.

Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the consolidated statement of income when the expenditure is incurred. Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount, being the higher of the net selling price and value in use.

3.8 Employees' end of service benefits

Pension contributions are made in respect of U.A.E. nationals to the U.A.E. General Pension and Social Security Authority in accordance with the U.A.E. Federal Law No (7), 1999 for Pension and Social Security. A provision is made for the full amount of end of service benefits due to the non-U.A.E. nationals in accordance with the U.A.E. Labour Law, for their periods of service up to the reporting date. This provision is included in other liabilities.

Management measures the employees' end of service benefits payable under the U.A.E. Labour law. Under this method an assessment is made of employee's expected service life with the Bank and the expected basic salary at the date of leaving the service. The expected liability at the date of leaving the service is discounted to its net present value.

3.9 Provisions

Provisions are recognised when the Bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

3.10 Borrowings

Borrowings are recognised initially at fair value net of transaction costs incurred, and are subsequently stated at amortised cost using effective interest rate method. Any difference between proceeds net of transaction costs and the redemption value is recognised in the consolidated statement of income over the period of the borrowings using the effective interest method.

3.11 Foreign currencies

Items included in the consolidated financial statements of the Bank are measured in UAE Dirhams which is the functional currency of the primary economic environment in which the Bank operates. Foreign currency transactions are translated into UAE Dirhams at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the reporting date. Any resultant gains or losses are accounted for in the consolidated statement of income.

3.12 Derivative instruments

Derivative instruments, comprising forward foreign exchange contracts, are initially recognised at fair value on the date on which a derivative contract is entered. All forward foreign exchange contracts are carried as assets when fair value is positive and as liabilities when fair value is negative. Changes in the fair value of the forward foreign exchange contracts are included in foreign exchange trading income in the consolidated statement of income.

3. Significant accounting policies (continued)

3.13 Interest income and expense

Interest income and expense are recognised in the consolidated statement of income for all financial instruments measured at amortised cost using the effective interest method.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

3.14 Fees and commission income

Commission income earned from the issue of documentary credits and letters of guarantee is recognised on a straight line basis over the period for which the documentary credits and guarantees are issued. Fee income on issue of letters of credit and guarantees is recognised when the underlying transaction is effected.

Other fees and commission income, including account servicing fees, placement fees and syndication fees, are recognised as the related services are performed.

3.15 Operating leases

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

3.16 Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months, excluding the minimum reserve deposits required to be maintained with the UAE Central Bank.

4. Critical accounting estimates and judgements

The Bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Impairment losses on loans and advances

In determining whether an impairment loss should be recorded in the consolidated statement of income, the Bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The management believes that based on the review of loans and advances adequate impairment losses were provided in the consolidated financial statements against specific loans and advances and against risks inherent in the portfolio. Management's impairment review was performed taking into consideration international and national economic conditions prevailing in U.A.E. during the year.

Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

The management has considered an amount of AED 1.6 million (2010: AED 5.5 million) as impairment loss on available-for-sale investments for the year, based on the analysis of impairment test performed on available-for-sale investments during the year.

Held-to-maturity investments

The Bank follows the IAS 39 guidance on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than for the specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire category as available-for-sale. The investments would therefore be measured at fair value and not at amortised cost.

5. Cash and balances with the UAE Central Bank

	2011	2010
Balances with the UAE Central Bank:	**AED'000**	AED'000
Current account	**304,060**	133,107
Certificates of deposit	**100,000**	1,850,000
Statutory deposit	**275,068**	243,426
	679,128	2,226,533
Cash in hand	**118,933**	143,687
	798,061	2,370,220

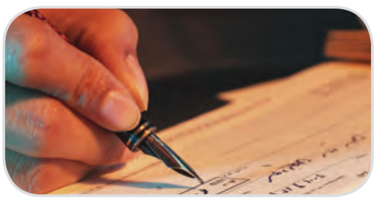
The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the Bank.

6. Due from other banks

	2011	2010
	AED'000	AED'000
Term deposits	**1,537,591**	675,000
Demand deposits	**201,202**	206,999
Syndicated loans	**75,297**	29,384
	1,814,090	911,383
Provision for impairment	**(80,806)**	(80,806)
	1,733,284	830,577

7. Loans and advances

	2011	2010
	AED'000	AED'000
Loans	**4,882,012**	5,522,948
Overdrafts	**1,866,432**	2,080,750
Loans against trust receipts	**131,688**	176,314
Others	**154,955**	207,907
Total loans and advances	**7,035,087**	7,987,919
Provision for impairment	**(284,975)**	(273,118)
Net loans and advances	**6,750,112**	7,714,801
By economic sector		
Wholesale and retail trade	**2,384,735**	2,542,629
Real estate and construction	**1,087,276**	1,469,424
Personal loans and others	**1,154,688**	1,351,400
Manufacturing	**281,232**	338,106
Agriculture and allied activities	**2,788**	2,452
Transport and communication	**46,448**	63,394
Financial institutions	**161,709**	239,537
Services and others	**1,916,211**	1,980,977
	7,035,087	7,987,919



7. Loans and advances (continued)

Movement in provision for impairment

	2011			2010
	Against specific loans and advances	Against risks inherent in the portfolio	Total	Total
	AED'000	AED'000	AED'000	AED'000
At January 1,	191,076	82,042	273,118	203,945
Provision made during the year	55,514	7,587	63,101	98,086
Provision released during the year	(11,237)	-	(11,237)	(20,921)
Written off/ utilised during the year	(38,293)	(14)	(38,307)	(7,992)
Provision transferred during the year	262	(1,962)	(1,700)	-
At December 31,	197,322	87,653	284,975	273,118

Net charge for provision for impairment

	2011	2010
	AED'000	AED'000
Provision made during the year	63,101	98,086
Provision released during the year	(11,237)	(20,921)
	51,864	77,165

The non-performing loans as at 31 December 2011 amounted to AED 499.7 million (2010: AED 410.8 million). Provisions for impairment in relation to such loans amounted to AED 197.3 million as at 31 December 2011 (2010: AED 191.1 million) (see note 31).

8. Investment securities

	2011	2010
	AED'000	AED'000
Securities at fair value through profit or loss held for trading		
Quoted equity securities	29,265	-
Funds placed under management	24,060	28,713
	53,325	28,713
Securities available-for-sale		
Quoted equity securities	137,424	33,042
Unquoted equity securities	6,962	6,897
Quoted debt instruments	66,880	67,099
	211,266	107,038
Securities held-to-maturity		
Quoted debt instruments	739,689	608,994
Unquoted debt instruments	92,091	34,185
	831,780	643,179
Provision for impairment	(44,435)	(34,185)
	787,345	608,994
	1,051,936	744,745

Reclassification of investments

During the year 2008, the Bank has reconsidered its investment strategy and accordingly the Bank adopted the amendments to IAS 39, which permits to reclassify in particular circumstances, investments held for trading for which change in fair value is recognised in the consolidated statement of income to available-for-sale investments for which the change in the fair value is recognised under equity as cumulative change in fair values.

8. Investment securities (continued)

Reclassification of investments (continued)

	2011	2010
	AED'000	AED'000
Fair value of reclassified investments at the beginning of the year	**15,080**	16,947
Impairment loss recognized on reclassified investments	**(1,436)**	(3,314)
Change in fair value	**(1,678)**	1,447
Fair value of investments reclassified at the end of the year	**11,966**	15,080

As a result of the above reclassification, net profit for the year has increased by AED 1.68 million (2010: decreased by AED 1.45 million).

Movement in investment securities:	**2011**	2010
	AED'000	AED'000
At the beginning of the year	**744,745**	476,414
Purchase of investment securities	**399,583**	880,190
Sale of investment securities	**(62,884)**	(597,133)
Provision for impairment on held to maturity investments	**(10,250)**	(17,093)
Fair value loss on investment securities at fair value through profit and loss - held for trading	**(7,728)**	(275)
Net premium amortised on debt securities	**(762)**	(454)
Foreign exchange revaluation	**354**	658
Net fair value (loss)/gain on investment securities available-for-sale directly recognised in equity	**(11,122)**	2,438
At the end of the year	**1,051,936**	744,745

9. Property and equipment

	Land and buildings	**Computers and equipment**	**Furniture and fixtures**	**Leasehold improvements**	**Motor vehicles**	**Capital work in progress**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Cost							
At 31 December 2009	106,154	54,583	5,504	7,821	1,528	3,274	178,864
Additions	31	23,012	161	517	259	3,963	27,943
Disposals	-	(139)	-	(130)	-	-	(269)
Transfer	-	3,838	-	73	-	(3,911)	-
At 31 December 2010	**106,185**	**81,294**	**5,665**	**8,281**	**1,787**	**3,326**	**206,538**
Additions	-	4,389	141	38	-	1,963	6,531
Disposals	-	(12,385)	(966)	(1,088)	(51)	(23)	(14,513)
Transfer	-	4,331	(6)	79	-	(4,404)	-
At 31 December 2011	**106,185**	**77,629**	**4,834**	**7,310**	**1,736**	**862**	**198,556**
Accumulated depreciation							
At 31 December 2009	36,171	41,644	3,715	4,910	751	-	87,191
Charge for the year	4,186	8,178	740	1,360	304	-	14,768
Eliminated on disposals	-	(131)	-	(130)	-	-	(261)
At 31 December 2010	40,357	49,691	4,455	6,140	1,055	-	101,698
Charge for the year	4,224	10,541	645	967	294	-	16,671
Eliminated on disposals	-	(12,336)	(980)	(1,088)	(51)	-	(14,455)
At 31 December 2011	**44,581**	**47,896**	**4,120**	**6,019**	**1,298**	**-**	**103,914**
Carrying amount							
At 31 December 2011	**61,604**	**29,733**	**714**	**1,291**	**438**	**862**	**94,642**
At 31 December 2010	65,828	31,603	1,210	2,141	732	3,326	104,840

Land and buildings include land costing AED 22.9 million (2010: AED 22.9 million) which is not depreciated.

Capital work in progress includes expenditure incurred on computers and equipments and other leasehold improvements

10. Other assets

	2011	2010
	AED'000	AED'000
Interest receivable	31,656	47,529
Prepayments and deposits	22,347	30,555
Split deals	40,458	82,695
Others	1,065,661	1,051,434
	1,160,122	1,212,213

Other assets include AED 1,061 million (2010: AED 1,034 million) deposited in First Instance Court of Dubai on account of the legal case involving Global Investment House as disclosed in Note 14 to these consolidated financial statements.

11. Due to other banks

	2011	2010
	AED'000	AED'000
Term borrowings	-	110,190
Demand deposits	590	560
	590	110,750

By geographical area

Within UAE	581	110,750
Outside the UAE	9	-
	590	110,750

The Bank has not defaulted in the repayment of any bank borrowings or on the payment of interest thereon.

12. Customers' deposits

	2011	2010
	AED'000	AED'000
Time deposits	5,681,825	6,569,883
Savings deposits	141,423	126,832
Current accounts	1,195,257	1,123,910
Margin deposits	71,058	97,130
	7,089,563	7,917,755

All customers' deposits are from customers within U.A.E.

13. Medium term loans

	2011 AED'000	2010 AED'000
Tier 2 loan from Ministry of Finance of the U.A.E.	-	578,453

At the Extra Ordinary General Meeting of the Shareholders held on 18 March 2009, the Shareholders approved the conversion of the deposits amounting AED 578,453,000 received from the Ministry of Finance to Tier 2 qualifying loan. Accordingly, the Bank had exercised the option to convert the deposits into Tier 2 loan for a period of 7 years.

However, on 29 September 2011, the Bank prepaid the entire Tier 2 loan.

14. Other liabilities

	2011 AED'000	2010 AED'000
Accounts payable	**56,426**	61,757
Interest payable	**25,334**	55,361
Provision for employees' end of service benefits	**21,600**	20,578
Other staff benefits	**2,447**	2,432
Others	**1,074,120**	1,034,749
	1,179,927	1,174,877

Other liabilities include AED 918.25 million (equivalent of USD 250 million) received from Global Investment House - Kuwait ("GIH") as advance payment on the proposed issue of a bond to be converted into 330 million shares of AED 1 each at a premium of AED 6.15 per share totalling AED 2.359 billion, entered through a Memorandum of Understanding (MOU) dated 16 July 2008.

During December 2008, GIH sent a letter to the Bank cancelling the above transaction and asking for the refund of the advance amount paid. Following legal advice Bank did not repay the advance amount and proceeded for completion of the transaction by seeking the balance amount from GIH.

In July 2010, the Court of First Instance asked the Bank to refund USD 250 million together with applicable interest from 28 February 2009 till effective date of payment to GIH.

On 25 April 2011, the Court of Appeal confirmed the judgment of the First Instance Tribunal and amended it in relation to the payment date of the interest. The Bank through its lawyers, appealed the said judgment to the Supreme Court which decided on 29 June 2011 to stay the Court of Appeal judgment until it hears the merits of the appeal.

On 20 September 2011, the Supreme Court considered on its chambers that the appeal was worth considering and decided to schedule a hearing on 18 October 2011 to hear the pleadings of both parties. In the meanwhile, as per provisional attachment order dated 23 August 2010, the Bank has deposited the funds in the Court's account, pending final decision on the case (see Note 10).

On 18 October 2011 the Supreme Court decided to adjourn the case for judgment.

On 15 November 2011, the Supreme Court issued a judgment by which it overturned the Court of Appeal's judgment dated 25 April 2011 and decided to send back the case to the Court of Appeal to hear the case again.

Movement in provision for employees' end of service benefits

	2011 AED'000	2010 AED'000
At January 1	**20,578**	18,798
Provision made during the year (Note 23)	**2,381**	2,194
Payments made during the year	**(1,359)**	(414)
At December 31	**21,600**	20,578

15. Share capital

At 31 December 2011, the issued and fully paid share capital comprised 1,600,000,000 shares of AED 1 each (31 December 2010: 1,568,160,000 shares of AED 1 each).

During the year, the share capital of the Bank was increased by AED 31.84 million by the issue of bonus shares of AED 1 each (2010: AED 116.16 million by the issue of bonus shares of AED 1 each).

These issues of shares were approved by the Shareholders at the Annual General Meeting held on 28 February 2011.

16. Statutory reserve

In accordance with the UAE Federal Law No (8) of 1984, as amended, and the U.A.E. Union Law No. 10 of 1980, as amended, 10% of the profit for the year is transferred to a statutory reserve until such time as the balance in the reserve equals 50% of the paid up share capital. No profit was transferred in the current year to the statutory reserve, as it exceeds 50% of the issued share capital of the Bank. This reserve is not available for distribution.

17. General reserve

The Bank maintains a general reserve and the contributions to this reserve are made at the discretion of the Directors. This reserve may be utilised for any purpose to be determined by a resolution of the shareholders of the Bank at an Ordinary General Meeting.

18. Commitments and contingent liabilities

a) The contractual amounts of the Bank's commitments and contingent liabilities are as follows:

	2011	2010
	AED'000	AED'000
Guarantees	**5,543,056**	5,938,252
Letters of credit	**197,571**	204,192
Commitments to extend credit	**1,006,573**	1,128,574
Others	**353,057**	1,214,919
	7,100,257	8,485,937
By geographical area		
Within the UAE	**6,887,603**	8,244,504
Outside the UAE	**212,654**	241,433
	7,100,257	8,485,937

Guarantees, which represent irrevocable assurances that the Bank will make payment in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Letters of credit are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments.

b) Capital commitments

At 31 December 2011, the Bank has capital commitments of AED 0.67 million (2010: AED 2.4 million).

19. Interest income and expense

	2011	2010
	AED'000	AED'000
Interest income		
Loans and receivables		
Loans and advances	**577,285**	667,034
Deposits with the UAE Central Bank	**1,432**	3,466
Other banks	**10,534**	4,019
Investment in debt securities	**31,244**	27,455
	620,495	701,974
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	**91,593**	145,339
Borrowings from other banks/Medium Term borrowings	**17,734**	29,629
	109,327	174,968

20. Other operating income

	2011 AED'000	2010 AED'000
Rental income	**7,027**	8,954
Foreign exchange income – net	**9,889**	12,346
Others	**2,683**	(931)
	19,599	20,369

21. Operating expenses

	2011 AED'000	2010 AED'000
Staff costs (Note 23)	**93,038**	89,652
Occupancy costs	**20,011**	18,468
Depreciation (Note 9)	**16,671**	14,768
Staff benefits (Note 23)	**8,448**	7,833
Fees and commission expenses	**1,532**	1,829
Others	**57,431**	50,371
	197,131	182,921

22. Investment (losses)/gains

	2011 AED'000	2010 AED'000
Dividend income on investment securities available-for-sale	**1,765**	1,287
Fair value loss on investment securities at fair value through profi		
and loss - held for trading	**(7,728)**	(275)
Impairment loss on investment securities available-for-sale	**(1,600)**	(5,558)
Arbitrage fees	**4**	-
Net premium amortised on debt securities	**(762)**	(454)
Profit on sale of investments		
a) Investment securities available-for-sale	**(505)**	4,686
b) Investment securities at fair value through profit and loss - held for trading	**367**	7,047
	(8,459)	6,733

23. Staff costs

Staff costs	2011 AED'000	2010 AED'000
Salaries and allowances	**90,971**	87,636
Staff training	**1,007**	1,334
Housing and medical	**1,060**	682
	93,038	89,652


23. Staff costs (continued)

	2011	2010
	AED'000	AED'000
Staff benefits		
Pension	**4,208**	3,838
End of service benefits (Note 14)	**2,381**	2,194
Others	**1,859**	1,801
	8,448	7,833

24. Basic earnings per share

The basic earnings per share is calculated by dividing the profit attributable to shareholders by the average number of ordinary shares in issue during the year. In accordance with IAS 33 "Earnings per Share", the impact of bonus shares issued has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

	2011	2010
Profit for the year in AED	**320,025,000**	350,798,000
Average number of shares in issue	**1,600,000,000**	1,600,000,000
Basic earnings per share in AED	**0.20**	0.22

There were no potentially dilutive shares as at 31 December 2011 and 2010.

25. Dividend per share

At the Board meeting held on 2 February 2012 the Board of Directors had proposed a cash dividend of 15% amounting to AED 240 million in respect of the year ended 31 December 2011 (2010: cash dividend amounting to AED 188.18 million and share dividend (issue of bonus shares) at 2.03% of the issued and paid up capital amounting to AED 31.84 million).

26. 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 of the Bank. During the year, the Bank entered into the following significant transactions with related parties in the ordinary course of business.

	2011	2010
	AED'000	AED'000
Interest income	**42,257**	45,063
Interest expense	**15,882**	20,773
Remuneration of key management personnel	**4,191**	5,577
Other income	**168**	235
Directors' fees	**1,100**	1,100

26. Related party transactions (continued)

Outstanding balances at the end of reporting date from transactions with related parties are as follows:

	2011	2010
	AED'000	AED'000
Loans and advances	**563,179**	513,649
Customer deposits	**538,281**	627,774
Irrevocable commitments and contingent liabilities	**197,644**	174,380

27. Cash and cash equivalents

	2011	2010
	AED'000	AED'000
Cash in hand and balances with UAE Central bank (Note 5)	**798,061**	2,370,220
Term and demand deposits with other banks (Note 6)	**1,733,284**	830,577
Statutory deposits	**(275,068)**	(243,426)
Loans to banks with original maturity over 3 months	**(75,297)**	(29,384)
	2,180,980	2,927,987

28. Business segments

The Bank is organised into two main business segments:

Retail and corporate banking - wherein retail banking comprises private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages and corporate banking involves transactions with corporate bodies including government and public bodies and comprises loans, advances, deposits and trade finance transactions.

Treasury and others - incorporating the activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the U.A.E. Central Bank and operations by the Bank's Head Office as a whole, none of which mutually constitute a separately reportable segment.

Transactions between the business segments are on normal commercial terms and conditions. There are no material items of income and expense arising between the business segments. Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position items.

Primary segment information	**Retail and corporate banking**	**Treasury and others**	**Total**
	AED'000	AED'000	**AED'000**
31 December 2011			
Gross income	622,454	59,116	**681,570**
Segment result	427,536	(111,030)	**316,506**
Unallocated income			**3,519**
Profit for the year			**320,025**
Segment assets	6,894,825	3,654,998	**10,549,823**
Unallocated assets			**1,159,278**
Total assets			**11,709,101**
Segment liabilities	6,994,944	476,277	**7,471,221**
Unallocated liabilities			**919,803**
Total liabilities			**8,391,024**

28. Business segments (continued)

Primary segment information (continued)

31 December 2010

Gross income	742,774	51,216	793,990
Segment result	487,471	(141,768)	345,703
Unallocated income			5,095
Profit for the year			**350,798**
Segment assets	7,950,881	4,143,189	12,094,070
Unallocated assets			1,141,230
Total assets			**13,235,300**
Segment liabilities	7,500,576	1,619,580	9,120,156
Unallocated liabilities			919,583
Total liabilities			**10,039,739**

29. Classification and fair value of financial instruments

Assets	**Loans and receivables**	**Held-to-maturity**	**Held for trading**	**Available-for-sale**	**Non-financial instruments**	**Total**
31 December 2011	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank	798,061	-	-	-	-	798,061
Due from other banks	1,733,284	-	-	-	-	1,733,284
Loans and advances	6,750,112	-	-	-	-	6,750,112
Investment securities	-	787,345	53,325	211,266	-	1,051,936
Customers' acceptances	120,944	-	-	-	-	120,944
Property and equipment	-	-	-	-	94,642	94,642
Other assets	-	-	-	-	1,160,122	1,160,122
Total assets	**9,402,401**	**787,345**	**53,325**	**211,266**	**1,254,764**	**11,709,101**
31 December 2010						
Cash and balances with the UAE Central Bank	2,370,220	-	-	-	-	2,370,220
Due from other banks	830,577	-	-	-	-	830,577
Loans and advances	7,714,801	-	-	-	-	7,714,801
Investment securities	-	608,994	28,713	107,038	-	744,745
Customers' acceptances	257,904	-	-	-	-	257,904
Property and equipment	-	-	-	-	104,840	104,840
Other assets	-	-	-	-	1,212,213	1,212,213
Total assets	**11,173,502**	**608,994**	**28,713**	**107,038**	**1,317,053**	**13,235,300**

29. Classification and fair value of financial instruments (continued)

Liabilities	**At amortised cost**	**Non-financial instruments**	**Total**
31 December 2011	AED'000	AED'000	AED'000
Due to other banks	590	-	590
Customers' deposits	7,089,563	-	7,089,563
Customers' acceptances	120,944	-	120,944
Other liabilities	-	1,179,927	1,179,927
Total liabilities	**7,211,097**	**1,179,927**	**8,391,024**
31 December 2010			
Due to other banks	110,750	-	110,750
Customers' deposits	7,917,755	-	7,917,755
Customers' acceptances	257,904	-	257,904
Medium Term Loans	578,453	-	578,453
Other liabilities	-	1,174,877	1,174,877
Total liabilities	**8,864,862**	**1,174,877**	**10,039,739**

The directors consider that the carrying amounts of the financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2011	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets at FVTPL				
Assets held for trading	53,325	-	-	53,325
Available-for-sale financial assets				
Quoted equities	137,424	-	-	137,424
Unquoted equities	-	6,962	-	6,962
Quoted debt instruments	66,880	-	-	66,880
	257,629	**6,962**	**-**	**264,591**
31 December 2010				
Financial assets at FVTPL				
Assets held for trading	28,713	-	-	28,713
Available-for-sale financial assets				
Quoted equities	33,042	-	-	33,042
Unquoted equities	-	6,897	-	6,897
Quoted debt instruments	67,099	-	-	67,099
	128,854	6,897	-	135,751

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in above table.

30. Financial risk management

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

Credit risk

The Bank assumes credit risk as part of its lending operations, which is identified as the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk exposures arise principally in loans and advances, due from banks and investment securities. There is also credit risk in off-balance sheet financial arrangements such as letters of credit, guarantees and undrawn loan commitments. The credit risk management and control are centralised in the Credit Risk Department with the following objectives:

30. Financial risk management (continued)

Credit risk (continued)

- To measure, monitor and mitigate risks both at micro as well as macro level.
- To facilitate building and sustaining a high quality credit portfolio and minimise losses.
- Contain non-performing assets through preventive and curative management.
- To identify early warning signals and initiate timely corrective action.

Credit Risk Department has various units viz., Rating Unit, Remedial Unit and Risk Containment Unit. Rating Unit has implemented internal risk rating systems to comply with IRB Foundation norms of Basel II. Remedial Unit and Risk Containment Units are functioning to prevent accretion of non-performing assets through timely action and maximise recoveries through vigorous follow-up, classification of delinquent exposures and negotiate compromise proposals, wherever required. Note 31 summarises the Bank's exposure to credit risk.

Credit Risk Mitigation

Collateral - It is a common practice to obtain collateral securities to safeguard the interest of the Bank in case of default. Such mitigants are backed by proper documentation and legally binding agreements. The most common forms of tangible securities accepted by the Bank are land and building, listed equity shares, fixed deposits under lien, vehicles etc.

Other comforts - personal guarantees and corporate guarantees are also taken as comfort, wherever deemed essential.

Market risk

Market risk for the Bank refers to the risk because of which the value of its on or off-balance sheet positions are adversely affected due to movements primarily in interest rates, currency exchange rates and investment prices. Thus the volatility in market level of interest rates, foreign exchange rates and investment prices expose the Bank's earnings and capital to risk.

The market risk department of the Bank addresses these risks to the Assets and Liability Committee (ALCO) on a regular basis based on stipulated norms for Asset Liability Management and Investments. The ALCO takes corrective measures as per the Bank's internal market risk policies and strategic business directions.

Liquidity risk

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To guard against this risk, management endeavors to diversify funding sources on a continuous basis and manage assets with liquidity in mind. The day-to-day funds management is done at Treasury so as to maintain satisfactory liquid assets. The liquidity position is monitored and reported to top management on a daily basis. The Bank's ALCO has put in place the policies to manage the liquidity risk and monitor the position regularly. Note 32 summarises the Bank's exposure to liquidity risk.

Interest rate risk

Interest rate risk is the potential that changes in interest rates may adversely affect the value of a financial instrument or portfolio, or the condition of the Bank as a whole. Although interest rate risk arises in all types of financial instruments, it is most pronounced in debt instruments, derivatives that have debt instruments as their underlying reference asset, and other derivatives whose values are linked to market interest rates. In general, the values of longer-term instruments are often more sensitive to interest rate changes than the values of shorter-term instruments. A part of interest rate risk can be labelled as yield curve risk, which refers to the imperfect correlation of interest rates of different maturities.

The Bank manages its interest rate sensitivity position based on anticipated and actual interest rate movements, in order to maximise net interest income ("NII"). The Bank analyses its interest rate sensitivity position based on the contractual repricing or maturity dates, whichever is earlier, regularly. The impact on the sensitivity position is calculated by way of 200 basis points ("bps") change in interest rates and resultant effect in the net interest income of the Bank. It is controlled through the limit prescribed for the same. Note 33 summarises the Bank's exposure to interest rate risk.

Currency risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored by the Treasury Department. Note 34 summarises the Bank's exposure to foreign currency exchange risk.

Operational risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk is inherent in all business activities and management of this risk is vital to the strategic objective of the Bank. While operational risk cannot be fully eliminated, management endeavours to minimise the losses by ensuring effective infrastructure, controls, systems and individuals are in place throughout the organisation.

To accomplish the above objective, the Bank has dedicated operational risk management function, which is proactive in developing and implementing new methodologies for the identification, assessment, monitoring, and control of operational risk. Systems and procedures are in place with clear segregation of duties and reporting line to reduce operational risk. Compliance with the guidelines is monitored through robust internal control and comprehensive audit system.

The Bank has implemented under noted processes aimed at monitoring, and mitigating operational risks.

- Bottom up approach (Risk and Control Assessment) for identification and assessment of operational risks at all business units.
- Establishing a centralised database for capturing operational risk losses.

A comprehensive Business Contingency and Continuity Plan to anticipate stress situations and mitigate the risk associated with them is under implementation.

31. Credit risk

Asset quality and ageing as on 31 December 2011	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Impaired			
Substandard	-	395,741	-
Doubtful	80,806	50,916	44,435
Loss	-	53,076	-
	80,806	499,733	44,435
Specific allowance for impairment	(80,806)	(197,322)	(44,435)
	-	**302,411**	**-**
Amount past due but not impaired			
Past due above 60 days	-	137,701	-
Past due less than 60 days	-	28,470	-
	-	166,171	-
Neither past due nor impaired	1,733,284	6,369,183	1,051,936
Collective allowances for impairment	-	(87,653)	-
	1,733,284	6,281,530	1,051,936
Carrying amount	1,733,284	6,750,112	1,051,936

Total collateral value is AED 9,133 million (2010: AED 9,492 million) against secured loans and advances of AED 4,562 million (2010: AED 5,205 million). The fair value of collaterals on impaired loans is estimated to AED 429 million (2010: AED 241 million).

Asset quality and ageing as on 31 December 2010	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Impaired			
Substandard	-	294,151	-
Doubtful	80,806	74,302	34,185
Loss	-	42,370	-
	80,806	410,823	34,185
Specific allowance for impairment	(80,806)	(191,076)	(34,185)
	-	219,747	-
Amount past due but not impaired			
Past due above 60 days	-	75,028	-
Past due less than 60 days	-	117,762	-
	-	192,790	-
Neither past due nor impaired	830,577	7,384,306	744,745
Collective allowances for impairment	-	(82,042)	-
	830,577	7,302,264	744,745
Carrying amount	830,577	7,714,801	744,745

31. Credit risk (continued)

Geographical concentration of assets

31 December 2011	Due from other banks	Loans and advances	Investment in securities
	AED'000	AED'000	AED'000
Within U.A.E.	1,595,816	6,750,112	925,210
Within GCC countries	13,958	-	126,687
Other countries	123,510	-	39
	1,733,284	6,750,112	1,051,936
31 December 2010			
Within U.A.E.	678,130	7,690,792	577,374
Within GCC countries	21,509	24,009	167,332
Other countries	130,938	-	39
	830,577	7,714,801	744,745

Rated and unrated exposure 31 December 2011	On Balance Sheet	Off Balance Sheet	Credit Risk Mitigation (CRM)			
	Gross Outstanding	Exposure after CCF	Exposure before CRM	CRM	Exposure after CRM	Risk Weighted Assets
Asset Classes	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	717,658	-	717,658	-	717,658	-
Claims on non-central Government public sector entities (PSEs)	179,410	525	179,935	-	179,935	56,212
Claims on banks	2,357,195	2,611	2,268,750	401	2,268,349	639,476
Claims on corporates	5,342,664	1,665,488	6,963,967	229,711	6,734,256	7,073,599
Claims included in the regulatory retail portfolio	1,277,902	1,726,573	3,004,475	1,675,183	1,329,292	1,041,946
Claims secured by residential property	11,039	-	11,039	-	11,039	9,818
Past due loans	630,645	11,226	337,033	509	336,524	443,002
Other assets	1,609,722	-	1,609,722	-	1,609,722	1,370,584
Credit derivatives	-	73,460	73,460	-	73,460	36,730
Total claims	**12,126,235**	**3,479,883**	**15,166,039**	**1,905,804**	**13,260,235**	**10,671,367**
Total credit risk weighted assets						**10,671,367**

Rated and unrated exposure 31 December 2010	On Balance Sheet	Off Balance Sheet	Credit Risk Mitigation (CRM)			
	Gross Outstanding	Exposure after CCF	Exposure before CRM	CRM	Exposure after CRM	Risk Weighted Assets
Asset Classes	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Claims on sovereigns	2,266,341	-	2,266,341	-	2,266,341	-
Claims on non-central Government public sector entities (PSEs)	-	525	525	-	525	-
Claims on banks	1,366,319	9,387	1,294,900	362	1,294,538	564,778
Claims on corporates	6,352,353	2,119,861	8,438,029	300,494	8,137,535	8,378,884
Claims included in the regulatory retail portfolio	1,368,744	1,713,257	3,082,001	1,678,181	1,403,820	1,145,951
Claims secured by residential property	8,977	-	8,977	-	8,977	6,078
Past due loans	546,322	21,630	259,972	1,954	258,018	338,220
Other assets	1,591,949	-	1,591,949	-	1,591,949	1,352,449
Credit derivatives	-	55,095	55,095	-	55,095	27,548
Total claims	**13,501,005**	**3,919,755**	**16,997,789**	**1,980,991**	**15,016,798**	**11,813,908**
Total credit risk weighted assets						**11,813,908**

32. Liquidity risk

Maturity profile **Assets**	**Upto 1 month**	**1 month - 3 months**	**3 months - 1 year**	**1 year - 5 years**	**Over 5 years**	**Total**
31 December 2011	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank	522,993	-	-	275,068	-	798,061
Due from other banks	1,507,987	-	170,202	55,095	-	1,733,284
Loans and advances	598,556	247,342	939,327	4,381,654	583,233	6,750,112
Investment securities	64,258	-	345,543	506,161	135,974	1,051,936
Customers' acceptances	43,636	38,069	39,239	-	-	120,944
Property and equipment	-	-	-	47,321	47,321	94,642
Other assets	31,655	-	1,128,467	-	-	1,160,122
Total	**2,769,085**	**285,411**	**2,622,778**	**5,265,299**	**766,528**	**11,709,101**
31 December 2010						
Cash and balances with the UAE Central Bank	2,126,794	-	-	243,426	-	2,370,220
Due from other banks	301,193	9,182	500,000	20,202	-	830,577
Loans and advances	750,250	414,079	1,137,006	4,427,078	986,388	7,714,801
Investment securities	20,596	-	48,056	540,384	135,709	744,745
Customers' acceptances	71,929	111,454	73,894	627	-	257,904
Property and equipment	-	-	-	52,420	52,420	104,840
Other assets	47,529	-	1,164,684	-	-	1,212,213
Total	3,318,291	534,715	2,923,640	5,284,137	1,174,517	13,235,300
Liabilities, equity and off balance sheet items						
31 December 2011						
Due to other banks	590	-	-	-	-	590
Customers' deposits	1,018,043	352,572	2,907,551	2,809,530	1,867	7,089,563
Customers' acceptances	43,636	38,069	39,239	-	-	120,944
Other liabilities	97,396	109,674	972,857	-	-	1,179,927
Shareholders' equity	-	313,268	379,103	-	2,625,706	3,318,077
A Total on-balance sheet items	**1,159,665**	**813,583**	**4,298,750**	**2,809,530**	**2,627,573**	**11,709,101**
Forward sale	75,597	202,015	-	-	-	277,612
Guarantees	50,939	-	152,816	-	-	203,755
Unavailed limits	576,344	24,519	400,576	-	-	1,001,439
B Total off-balance sheet items	**702,880**	**226,534**	**553,392**	**-**	**-**	**1,482,806**
Grand total [A+B]	**1,862,545**	**1,040,117**	**4,852,142**	**2,809,530**	**2,627,573**	**13,191,907**
31 December 2010						
Due to other banks	560	-	110,190	-	-	110,750
Customers' deposits	1,278,709	1,050,320	2,608,513	2,978,610	1,603	7,917,755
Customers' acceptances	71,929	111,454	73,894	627	-	257,904
Medium term loan	-	-	-	-	578,453	578,453
Other liabilities	91,535	100,478	982,864	-	-	1,174,877
Shareholders' equity	-	353,372	248,323	-	2,593,866	3,195,561
A Total on-balance sheet items	1,442,733	1,615,624	4,023,784	2,979,237	3,173,922	13,235,300
Forward sale	200,865	296,407	459,125	-	-	956,397
Guarantees	50,939	-	152,816	-	-	203,755
Unavailed limits	630,378	37,460	445,224	-	-	1,113,062
B Total off-balance sheet items	882,182	333,867	1,057,165	-	-	2,273,214
Grand total [A+B]	2,324,915	1,949,491	5,080,949	2,979,237	3,173,922	15,508,514

33. Interest rate risk

The Bank is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2011	Less than 3 months	From 3 months to 1 year	Over 1 year	Non-interest bearing	Total
Financial assets	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central bank	100,000	-	-	698,061	798,061
Due from other banks	1,462,888	150,000	-	120,396	1,733,284
Loans and advances	955,942	915,788	4,831,304	47,078	6,750,112
Investment securities	133,863	177,761	517,662	222,650	1,051,936
Customers' acceptances	-	-	-	120,944	120,944
Total	**2,652,693**	**1,243,549**	**5,348,966**	**1,209,129**	**10,454,337**
Financial liabilities					
Due to other banks	-	-	-	590	590
Customers' deposits	745,987	1,724,155	37,148	4,582,273	7,089,563
Customers' acceptances	-	-	-	120,944	120,944
Total	**745,987**	**1,724,155**	**37,148**	**4,703,807**	**7,211,097**
On balance sheet interest rate sensitivity gap	**1,906,706**	**(480,606)**	**5,311,818**	**(3,494,678)**	**3,243,240**
At 31 December 2010					
Total financial assets	3,629,736	1,553,284	5,594,814	1,140,413	11,918,247
Total financial liabilities	1,839,076	1,645,766	623,640	4,756,380	8,864,862
On balance sheet interest rate sensitivity gap	1,790,660	(92,482)	4,971,174	(3,615,967)	3,053,385

33. Interest rate risk (continued)

Rate sensitivity analysis

At the reporting date if interest rates had been 200 bps higher/lower and all the other variables were held constant, the Bank's:

- Net interest income would have increased/decreased by AED 33.32 million (2010: AED 32.07 million).
- Other equity reserves would have increased/decreased by AED 311.06 million based on EVE analysis (2010: AED 312.42 million).

Method and assumptions for sensitivity analysis

- Interest rate may fluctuate by a reasonable +/- 200 bps
- A 200 bps change is used to give a realistic assessment vis-à-vis prevailing interest rates on the end of the reporting date.
- Interest rate change takes place uniformly across all time buckets upto 1 year for net interest income impact.
- Interest rate change takes place at the mid point of each time bucket.
- Other parameters remain unchanged.
- Impact on net interest income upto next 1 year is worked out.
- For impact on equity, (EVE analysis), weighted modified duration of Rate Sensitive Assets ("RSA") and Rate Sensitive Liabilities ("RSL") for all buckets has been worked out and its net impact calculated.
- RSA and RSL have been captured based on earlier of the re-pricing or maturity.

34. Currency risk

Concentration of assets and liabilities by currency:

At 31 December 2011	**AED**	**USD**	**Others**	**Total**
Financial assets	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank	784,998	13,063	-	798,061
Due from other banks	1,493,130	146,984	93,170	1,733,284
Loans and advances	6,748,109	-	2,003	6,750,112
Investment securities	264,546	731,738	55,652	1,051,936
Customers' acceptances	120,944	-	-	120,944
Total financial assets	**9,411,727**	**891,785**	**150,825**	**10,454,337**
Financial liabilities				
Due to other banks	580	-	10	590
Customers' deposits	6,982,291	19,788	87,484	7,089,563
Customers' acceptances	120,944	-	-	120,944
Total financial liabilities	**7,103,815**	**19,788**	**87,494**	**7,211,097**
Net balance sheet position	**2,307,912**	**871,997**	**63,331**	**3,243,240**
Off balance sheet position	**6,663,564**	**428,224**	**8,469**	**7,100,257**
At 31 December 2010				
Total financial assets	11,144,073	636,242	137,932	11,918,247
Total financial liabilities	8,657,537	141,554	65,771	8,864,862
Net balance sheet position	2,486,536	494,688	72,161	3,053,385
Off balance sheet position	7,350,335	1,094,701	40,901	8,485,937

34. Currency risk (continued)

Rate sensitivity analysis

Year 2011	Foreign currency assets	Foreign currency liabilities	Net forward purchase/ (sale)	Net long/ (short) position	Impact on statement of income and equity
	AED'000	AED'000	AED'000	AED'000	AED'000
Pegged Currencies					
US Dollar	1,013,141	138,045	(126,570)	748,526	(14,971)
Saudi Riyal	25,272	-	-	25,272	(505)
Bahrain Dinar	1,140	-	-	1,140	(23)
Omani Riyal	249	-	-	249	(5)
Qatar Riyal	579	-	-	579	(12)
Other Currencies					
Kuwait Dinar	33,187	-	-	33,187	(3,319)
Great British Pound	10,736	10,779	-	(43)	4
Euro	76,833	76,602	(132)	99	(10)
Swiss Frank	258	29	-	229	(23)
Japanese Yen	2,204	113	(2,004)	87	(9)
Indian Rupee	-	11	-	(11)	1
Lankan Rupee	6	1	-	5	(1)
Jordanian Dinar	213	-	-	213	(21)
Canadian Dollar	171	97	-	74	(7)
	1,163,989	**225,677**	**(128,706)**	**809,606**	
Total impact if foreign currency fluctuates against AED					**+/-18,901**

Year 2010	Foreign currency assets	Foreign currency liabilities	Net forward purchase/ (sale)	Net long/ (short) position	Impact on statement of income and equity
Pegged Currencies					
US Dollar	756,753	256,880	(216,929)	282,944	(5,659)
Saudi Riyal	29,285	-	-	29,285	(586)
Bahrain Dinar	230	-	-	230	(5)
Omani Riyal	602	-	-	602	(12)
Qatar Riyal	162	-	-	162	(3)
Other Currencies					
Kuwait Dinar	36,629	-	-	36,629	(3,663)
Great British Pound	24,379	24,412	-	(33)	3
Euro	38,300	35,953	16,982	19,329	(1,933)
Swiss Frank	4,207	4,316	-	(109)	11
Japanese Yen	2,616	157	(2,074)	385	(39)
Indian Rupee	17	1	-	16	(2)
Lankan Rupee	12	1	-	11	(1)
Jordanian Dinar	187	-	-	187	(19)
Canadian Dollar	1,328	1,320	-	8	(1)
	894,707	323,040	(202,021)	369,646	
Total impact if foreign currency fluctuates against AED					**+/-11,909**

- Currencies are divided into two categories i) those pegged with USD and ii) all other currencies as on the reporting date.
- Exchange rate fluctuation of 2% in AED against the respective pegged foreign currencies and exchange rate fluctuation of 10% in AED against the respective other foreign currencies have been used to give a realistic assessment as a plausible event.
- Based on these changes the impact on profit or loss and equity has been worked out.

35. Equity price risk

Sensitivity analysis

At the reporting date if the equity prices are 10% higher/lower as per the assumptions mentioned below and all the other variables were held constant, the Bank's:

- Statement of income/equity would have increased/decreased by AED 19.77 million (2010: AED 6.87 million).

Method and assumptions for sensitivity analysis

- The sensitivity analysis has been done based on the exposure to equity price risk as at the reporting date.
- As at the reporting date if equity prices are 10% higher/lower on the market value uniformly for all equities while all other variables are held constant, the impact on profit or loss and equity has been shown above.
- A 10% change in equity prices has been used to give a realistic assessment as a plausible event.

36. Capital management

Bank's capital management policy is to maintain a strong capital base to support the development and growth of business. Current and future capital requirements are determined on the basis of loan growth expectations for each business unit, expected growth in off-balance sheet facilities, future sources and uses of funds and Bank's future dividend policy. The Bank also ensures compliance with externally imposed capital requirement norms, strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value. During the year the Bank had complied in full with all external imposed capital requirements. The U.A.E. Central Bank requires the banks in U.A.E. to maintain a ratio of total regulatory capital to the risk weighted assets at or above the agreed minimum of 12%.

Capital structure

The table below details the regulatory capital resources of the Bank:

	2011	2010
	AED'000	AED'000
Tier 1 Capital		
Share capital	**1,600,000**	1,568,160
Statutory reserve	**1,019,266**	1,019,266
General reserve	**6,440**	6,440
Fair value reserve on investment securities available-for-sale	**(6,756)**	-
Retained earnings	**699,127**	599,121
Total Tier 1	**3,318,077**	**3,192,987**
Tier 2 Capital		
Fair value reserve on investment securities available-for-sale	**-**	1,158
General reserves on unclassified loans and advances to customers	**87,653**	82,042
Medium term loan	**-**	578,453
Total Tier 2	**87,653**	**661,653**
Total Regulatory Capital	**3,405,730**	**3,854,640**

Capital adequacy ratios

	2011	2010
	AED'000	AED'000
Risk weighted assets :		
Credit risk-weighted assets	**10,671,367**	11,813,909
Market risk-weighted assets	**164,715**	149,972
Operations risk-weighted assets	**1,177,414**	1,109,028
Total risk-weighted assets	**12,013,496**	13,072,909

36. Capital management (continued)

	2011	2010
	%	%
Capital adequacy ratio (percent)		
Tier 1 ratio (Tier 1 capital/total risk weighted assets)	**27.6**	24.4
Tier 2 ratio (Tier 2 capital/Tier 1 capital)	**2.6**	20.7
Total capital adequacy ratio (total regulatory capital/total risk weighted assets)	**28.3**	29.5
Minimum capital adequacy ratio required by the UAE Central Bank	**12%**	12%

37. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 2 February 2012.

بنك أم القيوين
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