Annual Report

2012

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 Salama 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

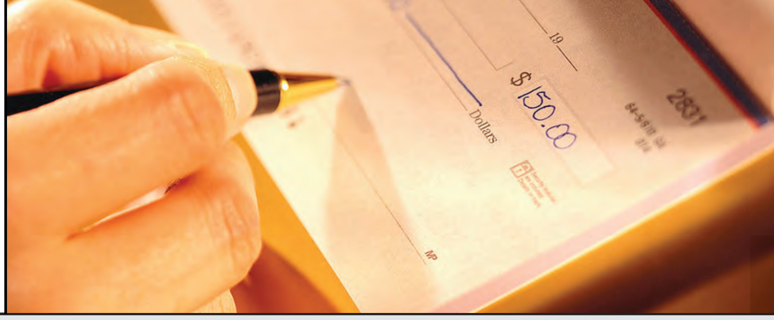
Masfout Branch
NBQ Building
Main Street
P.O. Box 12550 Masfout, Ajman

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, I am pleased to welcome you all to the 30th annual general meeting of National Bank of Umm Al Qaiwain (NBQ) and present the annual report to the Board of Directors for the year 2012.

The global uncertainty continued during 2012 due to the ongoing debt crisis of the Eurozone , US debt ceiling crises and downgrading of several Eurozone sovereign credit ratings. The UAE economy, however, showed considerable resilience with an estimated growth of 4% as per IMF estimates for the year 2012. Growth has been witnessed in some sectors like energy, trade, logistics, tourism and retail. The annual inflation in the UAE has slowed to 0.7% in 2012 as per the IMF estimates. As a result of the low global interest rates and subdued inflation in the domestic market, UAE's monetary policy remained relatively accommodative under the fixed $/AED exchange rate. The UAE equity markets benefited from the improved investor sentiments during 2012 with both ADX and DFM registering double digit growth compared to 2011. Overall, the banking sector in the UAE has seen a satisfactory growth in 2012 amidst positive macroeconomic performances.

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. The Bank has a clear strategy in place to further enhance shareholder returns and take advantage of the selected growth opportunities.

Following a policy of balancing prudence with profitability, NBQ has delivered a robust performance during 2012 with a net profit of AED 328.5 million. As at end of 2012, total assets amounted to AED 12.239 billion with Loans portfolio of AED 6.748 billion and Customer deposits of AED 7.279 billion.

Shareholders' funds increased to AED 3.419 billion as at 31/12/2012 as against AED 3.318 billion as at 31/12/2011. Earnings per share were 21 fils for the year ending 31/12/2012.

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 its after effects on the UAE economy. A high Capital Adequacy Ratio of 31.8 % as at end of 2012 is well over the minimum 12% stipulated by the UAE Central Bank, highlighting the Bank's financial strength. Likewise the Tier 1 ratio of 30.9 % 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 16% cash dividend for 2012.

For the year 2013, the UAE Government plans spending increases on the back of continuing strong oil prices. Federal budgets and individual Emirates have planned substantial budget spending. Accordingly, the Bank is confident of building on its strong balance sheet with a balanced growth of its assets and liabilities on the back of targeted Government budget spending.

The strategic development plans launched under the initiatives of His Highness Sh.Khalifa Bin Zayed Al Nahyan, President of the UAE, in all the emirates, based on the needs and aspirations of the UAE nationals, is certain to improve the quality of life of all the communities in the UAE.

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

I would also 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 2012 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 328.5 million for the year. Net interest income amounted to AED 467.2 million.

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 and result of strong recovery efforts, provisions on impaired assets, net of recoveries, amounted to AED 41.298 million in 2012 compared to AED 62.113 million in 2011.

Total assets stood at AED 12.239 billion at the end of 2012 while Loans and Customer deposits portfolios amounted to AED 6.748 billion and AED 7.279 billion respectively. The shareholders equity of AED 3.419 billion as at 31st Dec 2012 increased from AED 3.318 billion at 31st Dec 2011 and the Earnings Per Share as at 31st Dec 2012 is 21 fils.(2011 – 20 fils).

The Bank continued to maintain strong liquidity levels during the year. Our focus on balance sheet optimization has resulted in strong Capital adequacy and liquidity ratios and significantly improved funding profile.

As per their circular number 28/2010, the UAE Central Bank had mandated banks to build and maintain a collective provision of 1.5% of risk-weighted assets by end of 2014. NBQ has achieved this ratio at end of 2012 itself, well ahead of the deadline.

The Bank's Capital Adequacy Ratio of 31.8%, is well over the UAE Central Bank minimum requirement of 12% and the Basel II accord ratio of 8%. The Tier 1 ratio of 30.9% as at 31/12/2012, is well in excess of the minimum ratio of 7% stipulated by the UAE Central Bank.

OUTLOOK FOR 2013

2013 promises to present more opportunities and challenges for the global economies and for the banking sector. With major economists including the IMF forecasting a growth of 3.5 to 4 % in 2013 for the UAE economy, the outlook remains positive especially for the retail, hospitality and tourism sectors.

The UAE Governments' diversification strategies and initiatives in infrastructure development and to support emerging sectors including renewable energy will underpin the growth areas during the next 3 to 5 years.

TREASURY AND INVESTMENTS

The European Debt crisis continued to worry investors during the year and the US Federal Reserve responded with further quantitative easing, ensuring liquidity. The domestic and GCC bond market was active with banks and corporates issuing bonds taking advantage of lower interest rates.

The Bank continued its policy of quality investment focusing on decent return without compromising on the risk profile. The strategic initiatives and decisions taken during the year resulted in significant contribution to the bank's bottom-line.

The Bank's Dealing Room continued its focus on profitability and quality of service to customers.

WHOLESALE BANKING

The Bank had adopted a cautious approach in the last few years with an aim to ensure the impact of adverse market conditions was minimal. With the timely measures, the Bank in the current period is well positioned to take advantage of the business opportunities. The Bank also saw a surge in its liquidity position. Armed with strong financial position, the bank has leveraged by growing its business prudently and efficiently in the local economy. With the UAE economy showing positive signs of growth, there is an increased interest in facilities across our corporate clients. We intend to take advantage of the growing economy by engaging existing clients further and adding new clientele. There has been a gradual and deliberate shift in focus from strengthening the balance sheet to accelerated growth. The bank is poised to achieve sustainable asset growth in 2013 in the existing core areas of corporate and commercial banking.

Management Review (continued)

RETAIL BANKING

The Bank's Retail Banking network of 17 branches and 13 Electronic Banking Units (EBUs) is spread across all 7 emirates in UAE to offer banking services to customers. The Bank offers its range of lending and deposit products to serve individuals as well as small business clients. The older branches are being renovated to offer new look and feel to its customers and to provide better environment for customer service. During 2013 plans are underway to further expand our branches and EBU networks in order to strengthen our distribution channels as part of our continued commitment to get closer to our customers and improve services to fulfill their expectations.

The Bank was prudent in its lending activities during 2012 and focused more on consolidation and maintaining healthy retail assets portfolio. The UAE National segment was the main target market for lending as they contribute to economic expansion of UAE keeping in mind that their buying power is one of the key economic drivers of UAE economy. Besides, NBQ continues to offer full range of VISA Card products - Debit, Credit and Prepaid & Rateb Salary Cards under the Cards program.

The Bank also launched new Islamic Finance product to facilitate customers in meeting their short term financial requirements. The focus area for increasing market share under Islamic products was the Housing Finance Scheme offered as Bayt Al Tayseer Scheme to UAE Nationals which is popular and widely accepted by them. The Retail Advances net portfolio grows marginally over the previous year as focus was more on exercising caution and care on the lending business.

In view of the improved sentiments of the real estate sector, the bank is planning to launch new product designed for this sector during the first quarter of 2013.

There were continuous effort towards enhancing products and services through alternate delivery channels by providing E-Banking facility to WPS customers and offering priority banking services to customers of selected branches.

The Bank streamlined the services offered at Electronic Banking Units (EBU) by setting up Cash Deposit Machines at various locations to facilitate speedier customer service. EBUs are now kept open from 8.00 am to 8.00 pm in order to enhance customer convenience.

RISK MANAGEMENT:

Credit Risk

• The Bank follows a well defined three-layered organizational structure with Relationship Business Units as the front office, Credit Risk and Centralized Approval Units as the Mid-office and Credit Administration & Operations unit as the back-office. The segregated functions and clear reporting lines provide maximum level of risk assurance and management oversight to Bank's credit functions.

• The Bank has well laid out Credit Risk Policies which are adhered to 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 credit appraisal process.

• As part of pro-active credit monitoring, tracking of Early Warning Signals, independent physical inspection of projects and covenant monitoring are undertaken through Risk Containment Unit. Management of stressed accounts and non-performing loans is centralized at Remedial Unit in Credit risk.

• Exposure monitoring including concentration levels at single obligor and sectoral levels are monitored by Portfolio Management Unit. The Bank is working on implementation of Foundation IRB approach of Basel II as per CBUAE guidelines in this regard.

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 defined policies to control and monitor its market risk functions. These include management practices, procedures, prudential risk limits, review mechanisms and reporting systems.

Liquidity stress tests are conducted under different scenarios at periodical intervals to assess the impact on liquidity to withstand stressed conditions. Stress tests are also carried out to assess interest rate risk in the banking book and price risk in the entire equity portfolio. The results are reviewed by the Bank's ALCO and show that the Bank is comfortably placed and are in line with the risk profile of the Bank.

Operational Risk

The Bank uses a comprehensive, all-encompassing framework for Operational Risk in order to monitor, assess, evaluate, control and mitigate risks arising out of usual operations.

Risks arising out of regular operations of the Bank are monitored and evaluated on an on-going basis through incident reporting and risk assessments. The key risk areas are identified and risk mitigants are adopted. In cases where risks emanate out of existing processes, process improvements are made to control them. Normal operational events are studied to evaluate any possibility of underlying systemic issues and improvements made if necessary.

Bank currently uses the 'Standardized Approach' for Operational Risk and has undertaken the process of recording data of operational events which will enable it to move to the 'Advance Measurement Approach' in due course or whenever mandated by the Central Bank of UAE.

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 ensure that the Bank's regular functioning is not disrupted by unforeseen events both physical like earthquakes and other disasters and system related like failure of system, Bank is currently in the final stages of implementing its Business Continuity Plan and IT Disaster Recovery site.

Post implementation of BCP, Bank would be conducting on-going testing to ensure the validity of the plan.

Basel II implementation:

The Bank has been in compliance with the Central Bank of UAE norms for standardized approach for computation of Capital Adequacy Ratios.

Further Bank adheres to the guidelines required for compliance under Pillar 2 and Pillar 3 including submission of ICAAP report annually to UAE Central Bank.

Stress tests are carried out to assess liquidity risk, interest rate risk in the banking book and equity price risk. The results show that the Bank is comfortably placed in line with the risk profile of the Bank and there is substantial buffer between available capital and regulatory capital to cover any unexpected losses from other risks.

INFORMATION TECHNOLOGY & OPERATIONS:

The Bank has maintained its stance of constant upgrading of its IT infrastructure including the Data Centre, DR site, Electronic Banking Channels etc. All new requirements of Central Bank are successfully managed in-house including the FTS system, WPS system, ICCS system etc. Business requirements are continually examined and incorporated into the systems to improve customer experience.

HUMAN RESOURCES:

NBQ further strengthened the UAE National workforce throughout the year by employing graduates to reinforce our commitment to strengthening the UAE Labour force by replacing the non-National workforce as and when they either retire or leave bank's services. Our past efforts have been rewarded with the culmination of EIBFS awarding NBQ during 2012, the first prize among all the banks in UAE for our Emiritisation efforts as at end of 2011.

The Talent Management program for aspiring UAE National graduates was revamped and re-launched during the year placing them 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.

COMMUNITY RELATIONS

As part of our Customer Social Responsibility initiatives, 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 2012.

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 2012, 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 consolidated financial position of **National Bank of Umm Al-Qaiwain (psc) and Subsidiary, Umm Al-Qaiwain, United Arab Emirates** as at 31 December 2012, and their consolidated financial performance and their consolidated 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 Bank 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 Bank which might have materially affected the consolidated financial position of the Bank or their consolidated financial performance.

Deloitte & Touche (M.E.)
Samir Madbak
Registration No. 386
30 January 2013

Consolidated statement of financial position
At 31 December 2012

	Notes	2012 AED '000	2011 AED '000
Assets			
Cash and balances with the UAE Central Bank	5	**1,337,058**	798,061
Due from other banks	6	**1,625,568**	1,733,284
Loans and advances	7	**6,748,372**	6,750,112
Investment securities	8	**1,007,715**	1,051,936
Customers' acceptances		**296,790**	120,944
Property and equipment	9	**85,747**	94,642
Other assets	10	**1,138,037**	1,160,122
Total assets		**12,239,287**	11,709,101
Liabilities			
Due to other banks	11	**678**	590
Customers' deposits	12	**7,279,296**	7,089,563
Customers' acceptances		**296,790**	120,944
Other liabilities	13	**1,242,802**	1,179,927
Total liabilities		**8,819,566**	8,391,024
Shareholders' equity			
Share capital	14	**1,600,000**	1,600,000
Statutory reserve	15	**1,019,266**	1,019,266
General reserve	16	**6,440**	6,440
Cumulative change in fair values		**6,363**	(6,756)
Retained earnings		**787,652**	699,127
Total shareholders' equity		**3,419,721**	3,318,077
Total liabilities and shareholders' equity		**12,239,287**	11,709,101
Commitments and contingent liabilities	17	**7,059,220**	7,100,257

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

Rashid Bin Saud Al-Mualla
Chairman

Nasser Bin Rashid Al-Moalla
Managing Director and Chief Executive Officer

Consolidated statement of income
For the year ended 31 December 2012

	Notes	2012 AED '000	2011 AED '000
Interest income	18	**529,548**	620,495
Interest expense	18	**(62,316)**	(109,327)
Net interest income		**467,232**	511,168
Fee and commission income		**56,579**	56,962
Other operating income	19	**18,802**	19,599
Gross income		**542,613**	587,729
Operating expenses	20	**(191,054)**	(197,131)
Operating income		**351,559**	390,598
Investment gains/(losses)	21	**18,265**	(8,459)
Impairment losses on held to maturity investments		**(2,750)**	(10,250)
Provision for impairment of loans and advances - net	7	**(38,549)**	(51,864)
Profit for the year		**328,525**	320,025
Basic earnings per share (in AED)	23	**0.21**	0.20

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

Consolidated statement of comprehensive income
For the year ended 31 December 2012

	2012 AED '000	2011 AED '000
Profit for the year	**328,525**	320,025
Other comprehensive income/(loss)		
Net gain/(loss) on available-for-sale investments recognised directly in equity	**14,642**	(11,122)
Transfer from equity on sale of available-for-sale investments	**(1,523)**	192
Impairment losses on available-for-sale investments	**-**	1,600
Other comprehensive income/(loss) for the year	**13,119**	(9,330)
Total comprehensive income for the year	**341,644**	310,695

Consolidated statement of changes in equity for the year ended 31 December 2012

	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 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 14)	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
Profit for the year	-	-	-	-	328,525	328,525
Other comprehensive income for the year	-	-	-	13,119	-	13,119
Total comprehensive income for the year	-	-	-	13,119	328,525	341,644
Dividend paid (Note 24)	-	-	-	-	(240,000)	(240,000)
Balance at 31 December 2012	**1,600,000**	**1,019,266**	**6,440**	**6,363**	**787,652**	**3,419,721**

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

Consolidated statement of cash flows for the year ended 31 December 2012

	2012 AED '000	2011 AED '000
Cash flows from operating activities		
Profit for the year	**328,525**	320,025
Adjustments:		
Provision for asset impairment	**41,299**	62,114
Depreciation for property and equipment	**15,212**	16,671
Increase/(decrease) in fair value of investment securities at fair value through profit and loss - held for trading	**(4,496)**	7,374
Premium amortised	**2,795**	762
Gain/(loss) on sale of investment in securities	**(2,103)**	138
Impairment losses on investment securities available-for-sale	**-**	1,600
Dividend income	**(14,143)**	(1,765)
Gain on disposal of property and equipment	**(16)**	(20)
Operating cash flows before changes in operating assets and liabilities	**367,073**	406,899
Decrease/(increase) in syndicated term loans to banks	**20,202**	(45,913)
Increase in statutory deposit with the UAE Central Bank	**(16,939)**	(31,642)
(Increase)/decrease in loans and advances net of provision and amounts written off	**(36,809)**	912,825
Decrease in other assets	**22,085**	52,091
Increase/(decrease) in due to other banks	**88**	(110,160)
Increase/(decrease) in customers' deposits	**189,733**	(828,192)
Decrease in medium term loans	**-**	(578,453)
Increase in other liabilities	**59,520**	4,830
Net cash generated from/(used in) operating activities	**604,953**	(217,715)
Cash flows from investing activities		
Purchase of property and equipment	**(6,320)**	(6,531)
Proceeds from sale of property and equipment	**19**	78
Purchase of investment in securities	**(162,437)**	(399,583)
Proceeds from sale of investment in securities	**220,831**	62,938
Dividend received	**14,143**	1,765
Net cash generated from/(used in) investing activities	**66,236**	(341,333)
Cash flows from financing activities		
Dividend paid	**(236,645)**	(187,959)
Cash used in financing activities	**(236,645)**	(187,959)
Net increase/(decrease) in cash and cash equivalents	**434,544**	(747,007)
Cash and cash equivalents, at the beginning of the year	**2,180,980**	2,927,987
Cash and cash equivalents, at the end of the year (Note 26)	**2,615,524**	2,180,980

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

Notes to the consolidated financial statements for the year ended 31 December 2012

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 13 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 Severe Hyperinflation	*1 July 2011*
Amendments to IFRS 1 Removal of Fixed Dates for First-time Adopters	*1 July 2011*
Amendments to IFRS 7 Disclosures – Transfers of Financial Assets	*1 July 2011*
Amendments to IAS 12 Deferred Tax: Recovery of Underlying Assets	*1 January 2012*

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***
IFRS 9 Financial Instruments (as revised in 2010)	1 January 2015
Amendments to IFRS 9 and IFRS 7 Mandatory Effective Date of IFRS 9 and Transition Disclosures	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
Amendments to IFRS 10, IFRS 11 and IFRS 12 Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance	1 January 2013

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)

*IAS 27 Separate Financial Statements (as revised in 2011)**	1 January 2013
*IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)**	1 January 2013
IFRS 13 Fair Value Measurement	1 January 2013
IAS 19 Employee Benefits (as revised in 2011)	1 January 2013
Amendments to IFRS 1 Government Loans	1 January 2013
Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities	1 January 2013
Amendments to IAS 1 Presentation of Items of Other Comprehensive Income	1 July 2012
Amendments to IAS 32 Offsetting Financial Assets and Financial Liabilities	1 January 2014
Annual Improvements to IFRSs 2009 - 2011 Cycle – Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IAS 1 Presentation of Financial Statements, IAS 16 Property, Plant and Equipment, IAS 32 Financial Instruments: Presentation, IAS 34 Interim Financial Reporting	1 January 2013
IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine	1 January 2013
Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements	1 January 2014

* 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 new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2013 or as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the 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 2012 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 equipments	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.

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

Balances with the UAE Central Bank:	**2012** AED'000	2011 AED'000
Current account	**200,010**	304,060
Certificates of deposit	**700,000**	100,000
Statutory deposit	**292,007**	275,068
	1,192,017	679,128
Cash in hand	**145,041**	118,933
	1,337,058	798,061

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

6. Due from other banks

	2012 AED'000	2011 AED'000
Term deposits	**1,350,000**	1,537,591
Demand deposits	**293,933**	201,202
Syndicated loans	**55,095**	75,297
	1,699,028	1,814,090
Provision for impairment	**(73,460)**	(80,806)
	1,625,568	1,733,284

Movement in provision for impairment	**2012** AED'000	2011 AED'000
At 1 January	**80,806**	80,806
Written off	**(7,346)**	-
At 31 December	**73,460**	80,806

7. Loans and advances

	2012 AED'000	2011 AED'000
Loans	**5,342,886**	4,882,012
Overdrafts	**1,506,394**	1,866,432
Loans against trust receipts	**128,480**	131,688
Others	**75,739**	154,955
Total loans and advances	**7,053,499**	7,035,087
Provision for impairment	**(305,127)**	(284,975)
Net loans and advances	**6,748,372**	6,750,112
By economic sector		
Wholesale and retail trade	**2,281,052**	2,384,735
Real estate and construction	**969,556**	1,087,276
Personal loans and others	**1,161,844**	1,154,688
Manufacturing	**215,174**	281,232
Agriculture and allied activities	**22,115**	2,788
Transport and communication	**75,659**	46,448
Financial institutions	**120,057**	161,709
Services and others	**2,208,042**	1,916,211
	7,053,499	7,035,087

7. Loans and advances (continued)

Movement in provision for impairment

	2012			2011
	Against specific loans and advances	**Against risks inherent in the portfolio**	**Total**	Total
	AED'000	**AED'000**	**AED'000**	AED'000
At January 1,	**197,322**	**87,653**	**284,975**	273,118
Provision made during the year	**80,339**	**7,906**	**88,245**	63,101
Provision released during the year	**(49,696)**	**-**	**(49,696)**	(11,237)
Written off/ utilised during the year	**(17,807)**	**(622)**	**(18,429)**	(38,307)
Provision transferred during the year	4,451	**(4,419)**	**32**	(1,700)
At December 31,	**214,609**	**90,518**	**305,127**	284,975

Net charge for provision for impairment

	2012	2011
	AED'000	AED'000
Provision made during the year	**88,245**	63,101
Provision released during the year	**(49,696)**	(11,237)
	38,549	51,864

The non-performing loans as at 31 December 2012 amounted to AED 621.08 million (2011: AED 499.7 million). Provisions for impairment in relation to such loans amounted to AED 214.61 million as at 31 December 2012 (2011: AED 197.3 million) (see note 30).

8. Investment securities

	2012	2011
	AED'000	AED'000
Securities at fair value through profit or loss held for trading		
Quoted equity securities	**17,910**	29,265
Funds placed under management	**25,084**	24,060
	42,994	53,325
Securities available-for-sale		
Quoted equity securities	**300,569**	137,424
Unquoted equity securities	**6,898**	6,962
Quoted debt instruments	**48,476**	66,880
	355,943	211,266
Securities held-to-maturity		
Quoted debt instruments	**569,069**	739,689
Unquoted debt instruments	**52,709**	92,091
	621,778	831,780
Provision for impairment	**(13,000)**	(44,435)
	608,778	787,345
	1,007,715	1,051,936

8. Investment securities (continued)

Movement in investment securities:	2012 AED'000	2011 AED'000
At 1 January	**1,051,936**	744,745
Purchase of investment securities	**162,437**	399,583
Sale of investment securities	**(220,251)**	(62,884)
Provision for impairment on held to maturity investments	**(2,750)**	(10,250)
Fair value gain/(loss) on investment securities at fair value through profit and loss - held for trading	**4,814**	(7,728)
Net premium amortised on debt securities	**(2,795)**	(762)
Foreign exchange revaluation	**(318)**	354
Net fair value gain/(loss) on investment securities available-for-sale directly recognised in equity	**14,642**	(11,122)
At the end of the year	**1,007,715**	1,051,936

Movement in provision for impairment:

At 1 January	**44,435**	34,185
Provision made during the year	**2,750**	10,250
Written off	**(34,185)**	-
At 31 December	**13,000**	44,435

9. Property and equipment

	Land and buildings AED'000	Computers and equipment AED'000	Furniture and fixtures AED'000	Leasehold improvements AED'000	Motor vehicles AED'000	Capital work in progress AED'000	Total AED'000
Cost							
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**
Additions	4	2,749	2	85	-	3,480	6,320
Disposals	-	(683)	(39)	(256)	-	-	(978)
Transfer	-	2,294	-	5	-	(2,299)	-
At 31 December 2012	**106,189**	**81,989**	**4,797**	**7,144**	**1,736**	**2,043**	**203,898**
Accumulated depreciation							
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
Charge for the year	4,160	9,862	358	586	246	-	15,212
Eliminated on disposals	-	(680)	(39)	(256)	-	-	(975)
At 31 December 2012	**48,741**	**57,078**	**4,439**	**6,349**	**1,544**	**-**	**118,151**
Carrying amount							
At 31 December 2012	**57,448**	**24,911**	**358**	**795**	**192**	**2,043**	**85,747**
At 31 December 2011	61,604	29,733	714	1,291	438	862	94,642

Land and buildings include land costing AED 22.9 million (2011: 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

	2012	2011
	AED'000	AED'000
Interest receivable	**22,017**	31,656
Prepayments and deposits	**23,125**	22,347
Others	**1,092,895**	1,106,119
	1,138,037	1,160,122

Other assets include AED 1,061 million (2011: AED 1,061 million) deposited in First Instance Court of Dubai on account of the legal case involving Global Investment House as disclosed in Note 13 to these consolidated financial statements.

11. Due to other banks

	2012	2011
	AED'000	AED'000
Demand deposits	**678**	590
	678	590

By geographical area

Within UAE	**589**	581
Outside the UAE	**89**	9
	678	590

12. Customers' deposits

	2012	2011
	AED'000	AED'000
Time deposits	**5,631,089**	5,681,825
Savings deposits	**138,972**	141,423
Current accounts	**1,435,887**	1,195,257
Margin deposits	**73,348**	71,058
	7,279,296	7,089,563

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

13. Other liabilities

	2012 AED'000	2011 AED'000
Accounts payable	**73,323**	56,426
Interest payable	**26,877**	25,334
Provision for employees' end of service benefits	**23,069**	21,600
Other staff benefits	**1,382**	2,447
Others	**1,118,151**	1,074,120
	1,242,802	1,179,927

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.

On 21 May 2012, the Court of Appeal confirmed the decision of the Court of Appeal dated 25 April 2011, which prompted the Bank to appeal once again to the Supreme Court in Dubai and such appeal was dated 27 May 2012.

On 19 June 2012, the Supreme Court decided to stay the enforcement of the Court of Appeal judgment and adjourned the case to 4 September 2012.

On 18 September 2012, the Supreme Court overturned the Court of Appeal's judgement for the second time and referred it back to the Court of Appeal to be heard by a panel of judges other than the panel who had heard the case twice earlier.

During a hearing on 16 December 2012, parties exchanged submission and the Court adjourned the hearing for 2 January 2013.

On 2 January 2013, the Court, following repeated requests from the Bank, decided to appoint an expert to assess the relationship between the parties, the MOU and the reasons why the subscription agreement was not signed and which party is liable for the failure of the signature of the same and the case was adjourned for 24 February 2013 for the expert to submit his report.

Movement in provision for employees' end of service benefits

	2012 AED'000	2011 AED'000
At January 1	**21,600**	20,578
Provision made during the year (Note 23)	**2,097**	2,381
Payments made during the year	**(628)**	(1,359)
At December 31	**23,069**	21,600

14. Share capital

At 31 December 2012, the issued and fully paid share capital comprised 1,600,000,000 shares of AED 1 each (2011: 1,600,000,000 shares of AED 1 each).

In 2011, the share capital of the Bank was increased by AED 31.84 million by issue of bonus shares of AED 1 each.

15. 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.

16. 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.

17. Commitments and contingent liabilities

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

	2012	2011
	AED'000	AED'000
Guarantees	**5,197,326**	5,543,056
Letters of credit	**155,215**	197,571
Commitments to extend credit	**1,120,979**	1,006,573
Others	**585,700**	353,057
	7,059,220	7,100,257
By geographical area		
Within the UAE	**6,877,801**	6,887,603
Outside the UAE	**181,419**	212,654
	7,059,220	7,100,257

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 2012, the Bank has capital commitments of AED 2.84 million (2011: AED 0.67 million).

18. Interest income and expense

	2012	2011
	AED'000	AED'000
Interest income		
Loans and receivables		
Loans and advances	**490,873**	577,285
Deposits with the UAE Central Bank	**224**	1,432
Other banks	**4,723**	10,534
Investment in debt securities	**33,728**	31,244
	529,548	620,495
Interest expense		
Financial liabilities at amortised cost		
Customers' deposits	**62,285**	91,593
Borrowings from other banks/Medium Term borrowings	**31**	17,734
	62,316	109,327

19. Other operating income

	2012	2011
	AED'000	AED'000
Rental income	**5,737**	7,027
Foreign exchange income – net	**8,443**	9,889
Others	**4,622**	2,683
	18,802	19,599

20. Operating expenses

	2012	2011
	AED'000	AED'000
Staff costs (Note 22)	**87,844**	93,038
Occupancy costs	**19,787**	20,011
Depreciation (Note 9)	**15,212**	16,671
Staff benefits (Note 22)	**6,873**	8,448
Fees and commission expenses	**1,056**	1,532
Others	**60,282**	57,431
	191,054	197,131

21. Investment gains/(losses)

	2012	2011
	AED'000	AED'000
Dividend income		
a) Investment securities available-for-sale	**13,025**	**1,765**
b) Investment securities at fair value through profit and loss - held for trading	**1,118**	-
Fair value gain/(loss) on investment securities at fair value through profit and loss - held for trading	**4,814**	(7,728)
Impairment loss on investment securities available-for-sale	-	(1,600)
Arbitrage fees	**-**	4
Net premium amortised on debt securities	**(2,795)**	(762)
Profit/(loss) on sale of investments		
a) Investment securities available-for-sale	**2,144**	(505)
b) Investment securities at fair value through profit and loss - held for trading	**(41)**	367
	18,265	(8,459)

22. Staff costs

	2012	2011
Staff costs	**AED'000**	AED'000
Salaries and allowances	**85,934**	90,971
Staff training	**1,082**	1,007
Housing and medical	**828**	1,060
	87,844	93,038

22. Staff costs (continued)

	2012	2011
	AED'000	AED'000
Staff benefits		
Pension	**4,085**	4,208
End of service benefits (Note 13)	**2,097**	2,381
Others	**691**	1,859
	6,873	8,448

23. 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.

	2012	2011
Profit for the year in AED	**328,525,000**	320,025,000
Average number of shares in issue	**1,600,000,000**	1,600,000,000
Basic earnings per share in AED	**0.21**	0.20

There were no potentially dilutive shares as at 31 December 2012 and 2011.

24. Dividend per share

At the Board meeting held on 30 January 2013 the Board of Directors had proposed a cash dividend of 16% amounting to AED 256 million in respect of the year ended 31 December 2012 (2011: cash dividend amounting to AED 240 million).

25. 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.

	2012	2011
	AED'000	AED'000
Interest income	**39,884**	42,257
Interest expense	**16,013**	15,882
Remuneration of key management personnel	**3,542**	4,191
Other income	**270**	168
Directors' fees	**1,100**	1,100

25. Related party transactions (continued)

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

	2012	2011
	AED'000	AED'000
Loans and advances	**753,959**	563,179
Customer deposits	**805,504**	538,281
Irrevocable commitments and contingent liabilities	**264,584**	197,644

26. Cash and cash equivalents

	2012	2011
	AED'000	AED'000
Cash in hand and balances with UAE Central bank (Note 5)	**1,337,058**	798,061
Term and demand deposits with other banks (Note 6)	**1,625,568**	1,733,284
Statutory deposits	**(292,007)**	(275,068)
Loans to banks with original maturity over 3 months	**(55,095)**	(75,297)
	2,615,524	2,180,980

27. 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 Investments - 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 investments**	**Unallocated**	**Total**
	AED'000	AED'000	AED'000	**AED'000**
31 December 2012				
Gross income	500,069	36,807	5,737	**542,613**
Segment result	406,132	50,574	(128,181)	**328,525**
Segment assets	7,061,795	4,028,876	1,148,616	**12,239,287**
Segment liabilities	7,256,412	642,219	920,935	**8,819,566**

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27. Business segments (continued)

Primary segment information (continued)

31 December 2011

Gross income	562,250	18,452	7,027	**587,729**
Segment result	444,851	(4,138)	(120,688)	**320,025**
Segment assets	6,894,825	3,654,998	1,159,278	**11,709,101**
Segment liabilities	6,994,944	476,277	919,803	**8,391,024**

28. 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 2012	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank	1,337,058	-	-	-	-	1,337,058
Due from other banks	1,625,568	-	-	-	-	1,625,568
Loans and advances	6,748,372	-	-	-	-	6,748,372
Investment securities	-	608,778	42,994	355,943	-	1,007,715
Customers' acceptances	296,790	-	-	-	-	296,790
Property and equipment	-	-	-	-	85,747	85,747
Other assets	-	-	-	-	1,138,037	1,138,037
Total assets	**10,007,788**	**608,778**	**42,994**	**355,943**	**1,223,784**	**12,239,287**
31 December 2011						
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**

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

Liabilities	**At amortised cost**	**Non-financial instruments**	**Total**
31 December 2012	AED'000	AED'000	AED'000
Due to other banks	678	-	678
Customers' deposits	7,279,296	-	7,279,296
Customers' acceptances	296,790	-	296,790
Other liabilities	-	1,242,802	1,242,802
Total liabilities	**7,576,764**	**1,242,802**	**8,819,566**
31 December 2011			
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**

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 2012	Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000
Financial assets at FVTPL				
Held for trading	42,994	-	-	42,994
Available-for-sale financial assets				
Quoted equities	300,569	-	-	300,569
Unquoted equities	-	6,898	-	6,898
Quoted debt instruments	48,476	-	-	48,476
	392,039	**6,898**	**-**	**398,937**
31 December 2011				
Financial assets at FVTPL				
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

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.

29. 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:

29. 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 30 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 31 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 32 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 33 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.

30. Credit risk

Asset quality and ageing as on 31 December 2012	Due from other banks AED'000	Loans and advances AED'000	Investment in securities AED'000
Impaired			
Substandard	-	338,181	-
Doubtful	73,460	229,825	13,000
Loss	-	53,076	-
	73,460	621,082	13,000
Specific allowance for impairment	(73,460)	(214,609)	(13,000)
	-	**406,473**	**-**
Amount past due but not impaired			
Past due above 60 days	-	205,936	-
Past due less than 60 days	-	133,216	-
	-	339,152	-
Neither past due nor impaired	1,625,568	6,093,265	1,007,715
Collective allowances for impairment	-	(90,518)	-
	1,625,568	6,002,747	1,007,715
Carrying amount	1,625,568	6,748,372	1,007,715

Total collateral value is AED 8,162 million (2011: AED 9,133 million) against secured loans and advances of AED 4,393 million (2011: AED 4,562 million). The fair value of collaterals on impaired loans is estimated to AED 511 million (2011: AED 429 million).

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

30. Credit risk (continued)

Geographical concentration of assets

31 December 2012	Due from other banks	Loans and advances	Investment in securities
	AED'000	AED'000	AED'000
Within U.A.E.	1,408,225	6,748,372	904,361
Within GCC countries	2,930	-	103,315
Other countries	214,413	-	39
	1,625,568	6,748,372	1,007,715
31 December 2011			
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

Rated and unrated exposure 31 December 2012	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	1,239,838	-	1,239,838	-	1,239,838	-
Claims on non-central Government public sector entities (PSEs)	104,773	225	104,998	-	104,998	21,180
Claims on banks	2,129,539	2,447	2,058,526	432	2,058,094	583,633
Claims on corporates	5,023,731	1,344,473	6,353,064	567,566	5,785,499	6,173,603
Claims included in the regulatory retail portfolio	1,167,969	1,723,517	2,891,501	1,678,713	1,212,787	984,127
Claims secured by residential property	13,854	-	13,854	-	13,854	12,511
Claims secured by commercial real estate	323,499	-	323,499	-	323,499	323,499
Past due loans	827,340	25,449	456,512	4,366	452,146	574,795
Other assets	1,700,297	-	1,700,297	-	1,700,297	1,512,261
Credit derivatives	-	73,460	73,460	-	73,460	36,730
Total claims	**12,530,840**	**3,169,571**	**15,215,549**	**2,251,077**	**12,964,472**	**10,222,339**
Total credit risk weighted assets						**10,222,339**

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**

31. 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 2012	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank	1,045,051	-	-	292,007	-	1,337,058
Due from other banks	1,570,473	-	-	55,095	-	1,625,568
Loans and advances	673,283	194,746	810,776	4,005,942	1,063,625	6,748,372
Investment securities	105,151	-	264,526	526,566	111,472	1,007,715
Customers' acceptances	26,437	167,625	102,728	-	-	296,790
Property and equipment	-	-	-	42,874	42,873	85,747
Other assets	22,017	-	1,116,020	-	-	1,138,037
Total	**3,442,412**	**362,371**	**2,294,050**	**4,922,484**	**1,217,970**	**12,239,287**
31 December 2011						
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
Liabilities, equity and off balance sheet items						
31 December 2012						
Due to other banks	678	-	-	-	-	678
Customers' deposits	975,279	518,003	3,128,010	2,654,237	3,767	7,279,296
Customers' acceptances	26,438	167,625	102,727	-	-	296,790
Other liabilities	121,831	137,345	983,626	-	-	1,242,802
Shareholders' equity	-	334,888	-	459,127	2,625,706	3,419,721
A Total on-balance sheet items	**1,124,226**	**1,157,861**	**4,214,363**	**3,113,364**	**2,629,473**	**12,239,287**
Forward sale	5,720	197,865	140,209	-	-	343,794
Guarantees	8,221	-	24,662	-	-	32,883
Unavailed limits	626,159	51,436	440,990	-	-	1,118,585
B Total off-balance sheet items	**640,100**	**249,301**	**605,861**	**-**	**-**	**1,495,262**
Grand total [A+B]	**1,764,326**	**1,407,162**	**4,820,224**	**3,113,364**	**2,629,473**	**13,734,549**
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

32. 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 2012	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	700,000	-	-	637,058	1,337,058
Due from other banks	1,405,095	-	-	220,473	1,625,568
Loans and advances	1,024,449	393,512	5,298,991	31,420	6,748,372
Investment securities	99,757	19,202	517,775	370,981	1,007,715
Customers' acceptances	-	-	-	296,790	296,790
Total	**3,229,301**	**412,714**	**5,816,766**	**1,556,722**	**11,015,503**
Financial liabilities					
Due to other banks	-	-	-	678	678
Customers' deposits	704,388	1,737,427	27,163	4,810,318	7,279,296
Customers' acceptances	-	-	-	296,790	296,790
Total	**704,388**	**1,737,427**	**27,163**	**5,107,786**	**7,576,764**
On balance sheet interest rate sensitivity gap	**2,524,913**	**(1,324,713)**	**5,789,603**	**(3,551,064)**	**3,438,739**
At 31 December 2011					
Total financial assets	2,652,693	1,243,549	5,348,966	1,209,129	10,454,337
Total financial liabilities	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

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32. 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 38.32 million (2011: AED 33.32 million).
- Other equity reserves would have decreased/increased by AED 361.27 million based on EVE analysis (2011: AED 311.06 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.

33. Currency risk

Concentration of assets and liabilities by currency:

At 31 December 2012	**AED**	**USD**	**Others**	**Total**
Financial assets	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank	1,321,651	15,407	-	1,337,058
Due from other banks	1,353,130	188,400	84,038	1,625,568
Loans and advances	6,747,562	(641)	1,451	6,748,372
Investment securities	399,547	542,738	65,430	1,007,715
Customers' acceptances	296,790	-	-	296,790
Total financial assets	**10,118,680**	**745,904**	**150,919**	**11,015,503**
Financial liabilities				
Due to other banks	589	-	89	678
Customers' deposits	7,177,309	21,865	80,122	7,279,296
Customers' acceptances	296,790	-	-	296,790
Total financial liabilities	**7,474,688**	**21,865**	**80,211**	**7,576,764**
Net balance sheet position	**2,643,992**	**724,039**	**70,708**	**3,438,739**
Off balance sheet position	**6,390,744**	**1,429,716**	**(761,240)**	**7,059,220**
At 31 December 2011				
Total financial assets	9,411,727	891,785	150,825	10,454,337
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

33. Currency risk (continued)

Rate sensitivity analysis

Year 2012	Foreign currency assets AED'000	Foreign currency liabilities AED'000	Net forward purchase/ (sale) AED'000	Net long/ (short) position AED'000	Impact on statement of income and equity AED'000
Pegged Currencies					
US Dollar	827,381	98,407	(175,503)	553,471	(11,069)
Saudi Riyal	34,117	1	-	34,116	(682)
Bahrain Dinar	350	-	-	350	(7)
Omani Riyal	524	-	-	524	(10)
Qatar Riyal	617	3	-	614	(12)
Other Currencies					
Kuwait Dinar	32,752	-	-	32,752	(3,275)
Great British Pound	8,886	9,005	-	(119)	12
Euro	71,139	70,930	388	597	(60)
Swiss Frank	161	4	-	157	(16)
Japanese Yen	1,137	93	(825)	219	(22)
Indian Rupee	-	88	102	14	(1)
Lankan Rupee	-	2	9	7	(1)
Jordanian Dinar	477	-	-	477	(48)
Canadian Dollar	117	119	480	478	(48)
	977,658	**178,652**	**(175,349)**	**623,657**	
Total impact if foreign currency fluctuates against AED					**+/-15,239**

Year 2011	Foreign currency assets AED'000	Foreign currency liabilities AED'000	Net forward purchase/ (sale) AED'000	Net long/ (short) position AED'000	Impact on statement of income and equity 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**

- 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.

34. 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 35.05 million (2011: AED 19.77 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.

35. 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:

	2012	2011
	AED'000	AED'000
Tier 1 Capital		
Share capital	**1,600,000**	1,600,000
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	**787,652**	699,127
Total Tier 1	**3,413,358**	**3,318,077**
Tier 2 Capital		
Fair value reserve on investment securities available-for-sale	**2,863**	-
General reserves on unclassified loans and advances to customers	**90,518**	87,653
Total Tier 2	**93,381**	**87,653**
Total Regulatory Capital	**3,506,739**	**3,405,730**

Capital adequacy ratios

	2012	2011
	AED'000	AED'000
Risk weighted assets :		
Credit risk-weighted assets	**10,222,339**	10,671,367
Market risk-weighted assets	**80,910**	109,898
Operations risk-weighted assets	**730,411**	785,570
Total risk-weighted assets	**11,033,660**	11,566,835

35. Capital management (continued)

	2012	2011
	%	%
Capital adequacy ratio (percent)		
Tier 1 ratio (Tier 1 capital/total risk weighted assets)	**30.9**	28.7
Tier 2 ratio (Tier 2 capital/Tier 1 capital)	**2.7**	2.6
Total capital adequacy ratio (total regulatory capital/total risk weighted assets)	**31.8**	29.4
Minimum capital adequacy ratio required by the UAE Central Bank	**12%**	12%

36. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 30 January 2013.