

National Bank of Fujairah PJSC
Condensed consolidated interim financial
information – (Un-audited)
For the three month period ended
31 March 2014

Condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2014

| Contents | Page |
|---|--------|
| Independent auditor’s review report to the shareholders and directors | 1 |
| Consolidated interim statement of financial position | 2 |
| Consolidated interim statement of income | 3 |
| Consolidated interim statement of comprehensive income | 4 |
| Consolidated interim statement of cash flows | 5 |
| Consolidated interim statement of changes in equity | 6 |
| Notes to the condensed consolidated interim financial information | 7 – 23 |



Review report to the Shareholders and Directors of National Bank of Fujairah PJSC

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of National Bank of Fujairah (“the Bank”) and its subsidiaries (together referred to as “the Group”) as at 31 March 2014 and the related consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity.” A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting.

PricewaterhouseCoopers
23 April 2014

A handwritten signature in blue ink that reads 'Paul Suddaby'.

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

*PricewaterhouseCoopers, Emaar Square, Building 41 Level 8, PO Box 11987, Dubai, United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 330 4100, www.pwc.com/middle-east*

W Hunt, AH Nasser, P Suddaby and JE Fakhoury are registered as practising auditors with the UAE Ministry of Economy

National Bank of Fujairah PJSC

Consolidated interim statement of financial position – (Un-audited)

As at 31 March 2014

| | Note | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|---|------|-----------------------------|---|
| Assets | | | |
| Cash and balances with the UAE Central Bank | 6 | 4,247,076 | 4,007,712 |
| Due from banks and financial institutions | 7 | 756,644 | 1,298,943 |
| Loans and advances | 8 | 15,478,670 | 14,324,406 |
| Investments | 10 | 716,343 | 568,514 |
| Property and equipment and capital work-in-progress | | 89,534 | 85,765 |
| Intangible assets | | 24,393 | 22,551 |
| Other assets | | 1,376,338 | 1,147,508 |
| Total assets | | 22,688,998 | 21,455,399 |
| Liabilities | | | |
| Due to banks | 11 | 977,690 | 599,168 |
| Customer deposits | 12 | 15,895,569 | 14,997,123 |
| Term borrowings | 11 | 1,154,795 | 1,630,455 |
| Other liabilities | | 1,668,653 | 1,199,119 |
| Total liabilities | | 19,696,707 | 18,425,865 |
| Shareholders' equity | | | |
| Share capital | 13 | 1,100,000 | 1,100,000 |
| Statutory reserve | | 353,647 | 353,647 |
| Special reserve | | 248,647 | 248,647 |
| Available-for-sale revaluation reserve | | 67 | (1,864) |
| Proposed dividends | | - | 137,500 |
| Retained earnings | | 789,930 | 691,604 |
| Tier 1 capital notes | 14 | 500,000 | 500,000 |
| Total shareholders' equity | | 2,992,291 | 3,029,534 |
| Total liabilities and shareholders' equity | | 22,688,998 | 21,455,399 |

This condensed consolidated interim financial information was approved by the Board of Directors on 23 April 2014 and was signed on their behalf by:


 Vince Cook
 Chief Executive Officer


 Adnan Anwar
 Chief Financial Officer

The notes on pages 7 to 23 form an integral part of the condensed consolidated interim financial information. The review report of the independent auditors is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of income – (Un-audited)

For the three month period ended 31 March 2014

| | <i>Note</i> | Three month period ended 31 March 2014 AED'000 | Three month period ended 31 March 2013 AED'000 |
|---|-------------|---|---|
| Interest income | | 222,405 | 200,250 |
| Interest expense | | (62,618) | (71,368) |
| Net interest income | | 159,787 | 128,882 |
| Net fees and commission income | | 58,376 | 49,582 |
| Foreign exchange and derivatives income | | 14,211 | 18,767 |
| Income from investments | | 275 | 1,197 |
| Other operating income | | 7,323 | 1,262 |
| Operating income | | 239,972 | 199,690 |
| Operating expenses | | | |
| Employee benefits expense | | (66,212) | (54,991) |
| Depreciation and amortization | | (4,054) | (3,064) |
| Other operating expenses | | (18,217) | (14,131) |
| Total operating expenses | | (88,483) | (72,186) |
| Operating profit | | 151,489 | 127,504 |
| Net impairment losses | 8 | (36,194) | (36,812) |
| Net profit for the period | | 115,295 | 90,692 |
| Earnings per share (basic and diluted) | 15 | AED 0.09 | AED 0.08 |

Appropriations have been reflected in the consolidated interim statement of changes in equity.

The notes on pages 7 to 23 form an integral part of the condensed consolidated interim financial information.

The review report of the independent auditors is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of comprehensive income – (Un-audited)

For the three month period ended 31 March 2014

| | Three month period ended 31 March 2014 AED'000 | Three month period ended 31 March 2013 AED'000 |
|--|---|---|
| Net profit for the period | 115,295 | 90,692 |
| Other comprehensive income: | | |
| Items that may be re-classified subsequently to the statement of income | | |
| <i>Changes in available-for-sale investments:</i> | | |
| Net fair value gains on disposal of available-for-sale investments | (395) | (444) |
| Net changes in fair value of available-for-sale investments | 2,326 | 1,213 |
| Others | - | 1,017 |
| Net change in available-for-sale-investments | 1,931 | 1,786 |
| Total comprehensive income for the period | 117,226 | 92,478 |

The notes on pages 7 to 23 form an integral part of the condensed consolidated interim financial information. The review report of the independent auditors is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of cash flows – (Un-audited)

For the three month period ended 31 March 2014

| | <i>Note</i> | Three month period ended 31 March 2014 AED'000 | Three month period ended 31 March 2013 AED'000 |
|--|-------------|---|---|
| Operating activities | | | |
| Net profit for the period | | 115,295 | 90,692 |
| Adjustments for : | | | |
| Depreciation and amortization | | 4,054 | 3,064 |
| Net impairment losses | | 36,194 | 36,812 |
| Net fair value gains on disposal of investments | | (395) | (601) |
| Net changes in fair value of investments at fair value through profit or loss | | 120 | (596) |
| | | ----- | ----- |
| Operating profit before working capital changes | | 155,268 | 129,371 |
| Change in statutory reserve with the UAE Central Bank | | (46,548) | (86,003) |
| Change in due from banks | | 50,000 | (50,000) |
| Change in loans and advances | | (1,190,458) | (310,377) |
| Change in other assets | | (228,830) | (23,425) |
| Change in due to banks | | (16,358) | (51,508) |
| Change in customer deposits | | 898,446 | (581,403) |
| Change in other liabilities | | 332,034 | 125,541 |
| | | ----- | ----- |
| Net cash used in operating activities | | (46,446) | (847,804) |
| Investing activities | | | |
| Purchase of property and equipment, intangible assets and capital work-in-progress | | (9,665) | (2,969) |
| Purchase of investments | | (235,703) | (124,395) |
| Proceeds from sale of investments | | 90,080 | 218,324 |
| | | ----- | ----- |
| Net cash (used in) / generated from investing activities | | (155,288) | 90,960 |
| Financing activities | | | |
| Change in term borrowings | | (475,660) | - |
| Proceeds from issue of Tier 1 capital notes | | - | 500,000 |
| Tier 1 capital notes coupon paid | | (16,969) | - |
| | | ----- | ----- |
| Net cash (used in) / generated from financing activities | | (492,629) | 500,000 |
| | | ----- | ----- |
| Net change in cash and cash equivalents | | (694,363) | (256,844) |
| Cash and cash equivalents at beginning of the period | | 4,246,735 | 2,479,073 |
| Cash and cash equivalents at end of the period | 18 | 3,552,372 | 2,222,229 |

The notes on pages 7 to 23 form an integral part of the condensed consolidated interim financial information. The review report of the independent auditors is set out on page 1.

National Bank of Fujairah PJSC

Consolidated interim statement of changes in equity – (Un-audited)

For the three month period ended 31 March 2014

| | Share capital AED'000 | Statutory reserve AED'000 | Special reserve AED'000 | Retained earnings AED'000 | Available- for-sale revaluation reserve AED'000 | Proposed dividends AED'000 | Tier 1 capital notes AED'000 | Total AED'000 |
|---|--------------------------|---------------------------------|-------------------------------|---------------------------------|---|----------------------------------|---------------------------------------|------------------|
| At 1 January 2013 | 1,100,000 | 314,119 | 209,119 | 532,197 | 3,396 | 110,000 | - | 2,268,831 |
| Total comprehensive income for the period | - | - | - | 90,692 | 1,786 | - | - | 92,478 |
| Issue of Tier 1 capital notes (note 14) | - | - | - | - | - | - | 500,000 | 500,000 |
| 2012 cash dividends paid | - | - | - | - | - | (110,000) | - | (110,000) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| At 31 March 2013 | 1,100,000 | 314,119 | 209,119 | 622,889 | 5,182 | - | 500,000 | 2,751,309 |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| At 1 January 2014 | 1,100,000 | 353,647 | 248,647 | 691,604 | (1,864) | 137,500 | 500,000 | 3,029,534 |
| Total comprehensive income for the period | - | - | - | 115,295 | 1,931 | - | - | 117,226 |
| Tier 1 capital notes coupon paid (note 14) | - | - | - | (16,969) | - | - | - | (16,969) |
| 2013 cash dividends | - | - | - | - | - | (137,500) | - | (137,500) |
| | ----- | ----- | ----- | ----- | ----- | ----- | ----- | ----- |
| At 31 March 2014 | 1,100,000 | 353,647 | 248,647 | 789,930 | 67 | - | 500,000 | 2,992,291 |

The notes on pages 7 to 23 form an integral part of the condensed consolidated interim financial information.
The review report of the independent auditors is set out on page 1.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2014

1. Legal status and activities

National Bank of Fujairah ("the Bank") is a Public Joint Stock Company registered under the laws of the United Arab Emirates. The Bank operates under a banking license issued on 29 August 1984 by the Central Bank of the United Arab Emirates ('the UAE Central Bank') and commenced operations on 20 September 1984. The shares of the Bank were listed on Abu Dhabi Securities Exchange (ADX) on 23 October 2005.

The principal activity of the Bank is commercial banking which is carried out from its fourteen branches in Fujairah, Abu Dhabi, Dubai, Sharjah, Dibba, Jebel Ali, Musaffah, Masafi, Qidfah, Deira, Ajman, Tawian, Al-Ain and Fujairah City Centre.

The Bank has three fully owned subsidiary companies:

- NBF Financial Services FZC was established in December 2004 with limited liability status in the Fujairah Free Trade Zone to provide support services to the Bank.
- NBF Capital Limited is registered in the Dubai International Financial Centre (DIFC) as a company limited by shares under DIFC laws and regulations and regulated by the Dubai Financial Services Authority (DFSA). The Company was established on 3 April 2013 and commenced operations on 12 May 2013. The principal business activities of the company are arranging credit or deals in investments and advising on financial products or credit.
- NBF Trade Services (HKG) Limited is registered in Hong Kong as a company limited by shares governed and regulated under the Hong Kong Companies Ordinance. The Company was established on 10 May 2013. The principal business activity of the company is the provision of trade processing services.

The condensed consolidated interim financial information for the three month period ended 31 March 2014 comprises the Bank and its subsidiaries (together referred to as "the Group").

The registered address of the Group is Hamad Bin Abdullah Street, P. O. Box 887, Fujairah, United Arab Emirates.

2. Disclosure policy

The Group has established a disclosure policy to ensure compliance with all applicable laws and regulations concerning disclosure of material non-public information, including International Financial Reporting Standards (IFRS), the rules of the UAE Central Bank and its Basel II Pillar 3 guidelines and the listing requirements of the Securities and Commodities Authority (SCA) and ADX.

The following are the key features of the Group's disclosure policy concerning disclosure of financial information:

a) Materiality thresholds

Information is considered material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down a materiality threshold, so that no material information is omitted or misstated.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)

For the three month period ended 31 March 2014 (continued)

2. Disclosure policy (continued)

b) Frequency and medium of disclosure

The condensed consolidated interim financial information is prepared and presented on a quarterly basis while complete consolidated financial statements are prepared and presented on an annual basis in compliance with the requirements of IFRS, Basel II Pillar 3 and other guidelines from the UAE Central Bank. Disclosures of material non-public financial information are made by the Finance Department of the Group through the following mediums:

- Sending quarterly reviewed and annual audited financial statements, along with Management Discussion Analysis or Directors' report and any other price sensitive information, to ADX and SCA;
- Hosting quarterly and annual consolidated financial statements on the Group's website; and
- Publication of annual report.

In addition, the Group's Corporate Communication Department discloses and disseminates information through press releases, media coverage and Group's website.

3. Basis of preparation

Statement of compliance

The condensed consolidated interim financial information has been prepared in accordance with IFRS, International Accounting Standard (IAS) 34: *Interim Financial Reporting* as issued by International Accounting Standard Board (IASB). These financial statements do not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2013.

4. Significant accounting policies

The accounting policies and methods of computation applied by the Group in the condensed consolidated interim financial information are the same as those applied by the Group in its audited consolidated financial statements as at and for the year ended 31 December 2013.

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 1 January 2014

The following applicable new standards and amendments to existing standards have been published and are effective for the Group's accounting period beginning on 1 January 2014.

- Amendment to IAS 32, 'Financial instruments: Presentation', on offsetting financial assets and financial liabilities (effective 1 January 2014).
- Amendment to IAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets (effective 1 January 2014).
- Amendment to IAS 39, 'Financial instruments: Recognition and measurement', on novation of derivatives and hedge accounting (effective 1 January 2014).
- Amendment to IAS 19, 'Employee benefits', regarding defined benefit plans (effective 1 July 2014).

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)

For the three month period ended 31 March 2014 (continued)

4. Significant accounting policies *(continued)*

Management has assessed the impact of the above interpretations and amendments to existing standards and has concluded that there is no significant impact on the Group's consolidated financial statements.

The following applicable new standard has been issued but is not effective for the Group's accounting period beginning on 1 January 2014 and has not been early adopted by the Group:

IFRS - 9, 'Financial instruments' (effective 1 January 2018). IFRS 9 addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of International Accounting Standard (IAS) 39 – 'Financial Instruments: Recognition and Measurement' that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The Group will consider the impact of the amendments / changes to IFRS 9 when completed by the IASB and intends to adopt IFRS 9 no later than the accounting period beginning on the effective date.

There are no other new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2014 that would be expected to have a material impact on the consolidated financial statements of the Group.

Key accounting estimates and judgments

The preparation of the condensed consolidated interim financial information requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may therefore differ resulting in future changes in these estimates. In preparing the condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended 31 December 2013.

5. Financial risk management

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2013.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)

For the three month period ended 31 March 2014 (continued)

Fair value measurement principles

Fair value is the amount for which an asset could be exchanged, or liabilities settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the fair value of a financial instrument is based on quoted market prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis. If a quoted market price is not available or if a market for a financial instrument is not active, the fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, discounted cash flow methods, comparison to similar instruments for which market observable prices exist. For investments under management with external fund managers, fair value is provided by the external fund managers, and is determined based on the market value of underlying investments of each fund. In all other cases, the instruments are measured at acquisition cost, including transaction cost, less impairment losses, if any.

Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate is a market-related rate at the date of consolidated statement of financial position for an instrument with similar terms and conditions.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty, where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Group believes a third-party market participant would take them into account in pricing a transaction.

The fair value of derivatives that are not exchange traded is estimated at the amount that the Group would receive or pay to terminate the contract at the date of consolidated statement of financial position, taking into account current market conditions and the current creditworthiness of the counterparty.

Fair value hierarchy

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price (unadjusted) in an active market for an identical instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry, group, pricing service or regulatory agency, and those prices represent actual and regularly recurring market transactions on an arm's length basis.
- Level 2: Valuation techniques based on observable input, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)

For the three month period ended 31 March 2014 (continued)

Pursuant to disclosure requirements of IFRS 7 Financial Instruments: Disclosures, the Group has disclosed the respective information under the table below:

Fair value measurement – fair value hierarchy:

| 31 March 2014 | Notional AED'000 | ----- On balance sheet ----- | | |
|------------------------------------|---------------------|------------------------------|--------------------|--------------------|
| | | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 |
| Investments | | | | |
| Debt securities | - | 590,246 | - | - |
| Other investments | - | 976 | 11,334 | - |
| Customer deposits | - | - | 1,010 | - |
| Forward foreign exchange contracts | 4,634,113 | - | 593 | - |
| Currency options | 2,591,029 | - | - | - |
| Interest rate derivatives | 1,455,060 | - | 541 | - |
| Commodity derivatives | 147,694 | - | 883 | - |

| 31 December 2013 | Notional AED'000 | ----- On balance sheet ----- | | |
|------------------------------------|---------------------|------------------------------|--------------------|--------------------|
| | | Level 1 AED'000 | Level 2 AED'000 | Level 3 AED'000 |
| Investments | | | | |
| Debt securities | - | 460,305 | - | - |
| Other investments | - | 937 | 11,455 | - |
| Customer deposits | - | - | 1,010 | - |
| Forward foreign exchange contracts | 3,549,133 | - | 958 | - |
| Currency options | 2,533,294 | - | - | - |
| Interest rate derivatives | 1,479,278 | - | 377 | - |
| Commodity derivatives | 83,085 | - | 198 | - |

During the period, there were no transfers between Level 1 and Level 2 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments during the period.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2014 (continued)

| 6. Cash and balances with the UAE Central Bank | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|---|--|---|
| Cash on hand | 133,129 | 141,543 |
| Certificates of deposit (CDs) with the UAE Central Bank | 2,400,000 | 2,100,000 |
| Other balances with the UAE Central Bank (note 6.1) | 1,713,947 | 1,766,169 |
| | <u>4,247,076</u> | <u>4,007,712</u> |
| 6.1 | Other balances with the UAE Central Bank include regulatory cash reserve deposits of AED 593.7 million (31 December 2013: AED 547.1 million). | |
| 7. Due from banks and financial institutions | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
| 7.1 | <i>By type</i> | |
| Placements | 510,460 | 1,165,820 |
| Balance in current accounts / term deposits | 246,184 | 133,123 |
| | <u>756,644</u> | <u>1,298,943</u> |
| 7.2 | <i>By geographical area</i> | |
| Within UAE | 440,992 | 912,487 |
| GCC countries | 12,488 | 52,084 |
| Others | 303,164 | 334,372 |
| | <u>756,644</u> | <u>1,298,943</u> |
| 7.3 | <i>The currency wise analysis is set out below:</i> | |
| AED | 439,667 | 647,536 |
| USD | 155,789 | 452,114 |
| EUR | 22,271 | 67,333 |
| GBP | 6,806 | 3,517 |
| XAU | 100,834 | 51,325 |
| Others | 31,277 | 77,118 |
| | <u>756,644</u> | <u>1,298,943</u> |

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2014 (continued)

8. Loans and advances

| | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|--|-----------------------------|---|
| 8.1 Loans and advances by type: | | |
| Overdrafts | 1,232,805 | 1,229,256 |
| Term loans | 9,815,187 | 9,373,600 |
| Loans against trust receipts | 2,640,084 | 2,386,904 |
| Bills discounted | 2,091,158 | 1,573,126 |
| Bills drawn under letters of credit | 550,086 | 576,569 |
| | <u>16,329,320</u> | <u>15,139,455</u> |
| Allowance for impairment losses (note 8.2) | (850,650) | (815,049) |
| Net loans and advances | <u>15,478,670</u> | <u>14,324,406</u> |

8.2 Allowance for impairment losses on loans and advances

| | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|---|-----------------------------|---|
| <i>Movement in allowances for impairment losses</i> | | |
| Balance at 1 January | 815,049 | 790,684 |
| Net allowance for impairment losses | 36,194 | 167,571 |
| Written-off during the period / year | (593) | (144,496) |
| Written-back during the period / year | - | 1,290 |
| | <u>850,650</u> | <u>815,049</u> |

9. Contingent liabilities and commitments

Contingent liabilities represent credit related commitments under letters of credit and guarantees which are designed to meet the requirements of the Group's customers towards third parties. Commitments represent contractually binding commitments to extend credit and other capital expenditure commitments of the Group which are undrawn at the date of consolidated interim statement of financial position.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2014 (continued)

9. Contingent liabilities and commitments (continued)

| | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|--|--------------------------------------|---|
| Contingent liabilities: | | |
| - Letters of credit covering movement of goods | 1,390,523 | 1,319,080 |
| - Financial guarantees and other direct credit substitutes | 655,214 | 640,937 |
| - Bid bonds, performance bonds and other transaction related contingencies | 4,110,965 | 3,972,769 |
| | <u>6,156,702</u> | <u>5,932,786</u> |
| Commitments: | | |
| - Undrawn commitments – credit related | 12,570,410 | 11,791,758 |
| - Others | 20,200 | 25,820 |
| | <u>12,590,610</u> | <u>11,817,578</u> |
| | <u>18,747,312</u> | <u>17,750,364</u> |

These contingent liabilities and commitments represent unfunded credit risk and related fees and accruals for probable losses are recognized in the consolidated interim statement of financial position until the commitments and contingent liabilities are either fulfilled or expired. Many of the contingent liabilities and commitments will expire without being funded in whole or in part. Therefore, the amounts do not represent expected future cash flows.

10. Investments

| | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|--|--------------------------------------|---|
| Investments at fair value through profit or loss (FVPL) (note 10.1) | 11,334 | 11,455 |
| Available-for-sale (AFS) | | |
| Debt securities (note 10.2) | 590,246 | 460,305 |
| Other investments | 976 | 937 |
| | <u>591,222</u> | <u>461,242</u> |
| Held-to-maturity (HTM) | | |
| Debt securities (note 10.2) | 113,787 | 95,817 |
| | <u>716,343</u> | <u>568,514</u> |

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)

For the three month period ended 31 March 2014 (continued)

10. Investments (continued)

10.1 Investments at FVPL include various funds whose fair values are based on the net asset values provided by the fund managers.

10.2 Debt securities aggregating **AED 704 million** (31 December 2013: AED 556.1 million) represent the Group's investments in bonds and notes which are quoted on recognized exchanges and prices are available on internationally recognized platforms of Reuters and Bloomberg and are liquid in normal market conditions. Debt securities portfolio includes floating rate securities amounting to **AED 296.6 million** (31 December 2013: AED 243.8 million).

10.3 The dispersion of the investment portfolio is set out below:

| | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|----------------------------------|--------------------------------------|---|
| Government | 62,269 | 62,014 |
| Banks and financial institutions | 641,761 | 494,108 |
| Others | 12,313 | 12,392 |
| | 716,343 | 568,514 |

10.4 The geographic dispersion of the investment portfolio is as follows:

| | | |
|------------|----------------|----------------|
| Within UAE | 115,915 | 100,823 |
| Others | 600,428 | 467,691 |
| | 716,343 | 568,514 |

10.5 The currency wise analysis of the investment portfolio is set out below:

| | | |
|-----|----------------|----------------|
| AED | 10,165 | 10,009 |
| USD | 602,087 | 467,473 |
| EUR | 73,472 | 60,587 |
| GBP | 30,619 | 30,445 |
| | 716,343 | 568,514 |

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2014 (continued)

11. Due to banks and term borrowings

| | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|-------------------------------------|-----------------------------|---|
| <i>By type:</i> | | |
| Club term loan facility (note 11.1) | - | 863,155 |
| Bilateral borrowing (note 11.2) | 754,795 | 367,300 |
| Sub-ordinated debt (note 11.3) | 400,000 | 400,000 |
| | <u>1,154,795</u> | <u>1,630,455</u> |
| Short-term borrowings (note 11.4) | 977,690 | 599,168 |
| | <u>2,132,485</u> | <u>2,229,623</u> |
| <i>By geographical area:</i> | | |
| Within UAE | 593,817 | 120,412 |
| GCC Countries | 275,475 | 275,475 |
| Others | 1,263,193 | 1,833,736 |
| | <u>2,132,485</u> | <u>2,229,623</u> |

11.1 On 24 June 2011, the Group arranged a club term loan facility of AED 863.2 million (USD 235 million) through a syndicate of banks. The facility carried a floating rate which is the aggregate of margin plus LIBOR and was originally repayable in full on 12 June 2014. In December 2013, the Group gave notice for prepayment of the club term loan facility and on 15 January 2014 it was repaid in full.

11.2 During 2014, the Group has arranged three term loan facilities through banks, amounting to AED 387.5 million. The facilities carry interest rate which is the aggregate of margin and LIBOR. As per the terms of the agreements, one facility extends to 6 months, second 2 years and the third 2 years after the disbursement date.

During 2013, the Group arranged two term loan facilities through banks, amounting to AED 275.48 million. The facilities carry interest rate which is the aggregate of margin and LIBOR. As per the terms of the agreements, one facility extends to 1 year and the other to 2 years after the disbursement date.

11.3 On 27 November 2013, the Group arranged a term subordinated loan facility, amounting to AED 400 million, with a finance company. The facility carries interest rate which is the aggregate of margin and EIBOR, payable quarterly. As per the terms of the facility, the full principal amount of the facility is to be repaid on 27 November 2023. The UAE Central Bank has approved the facility to be considered as Tier 2 capital for regulatory purposes.

11.4 Short-term borrowings include gold related borrowing amounting to AED 463.3 million (31 December 2013: AED 393.2 million) which is used to finance gold loans extended to customers on a matched basis.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2014 (continued)

12. Customer deposits

| | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|---------------------------------------|--------------------------------------|---|
| <i>By type:</i> | | |
| Demand and margin deposits | 3,938,352 | 3,274,281 |
| Saving deposits | 134,212 | 103,287 |
| Fixed term and notice deposits | 11,822,019 | 11,619,555 |
| Islamic customer deposits (note 12.1) | 986 | - |
| | <u>15,895,569</u> | <u>14,997,123</u> |
| <i>By geographical area:</i> | | |
| Within UAE | 15,654,004 | 14,739,883 |
| Others | 241,565 | 257,240 |
| | <u>15,895,569</u> | <u>14,997,123</u> |

- 12.1 The Group engages in *Sharia*' compliant Islamic banking activities through a window called "NBF Islamic." The Islamic customer deposits represent Qard Hasan Islamic current accounts. The Islamic operations were launched in 2014 and hence there are no comparatives to report.

13. Shareholders' equity

| Share capital | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|--|--------------------------------------|---|
| <i>Authorised, issued and fully paid:</i> | | |
| 1,100,000,000 shares of AED 1 each (2013: 1,100,000,000 shares of AED 1 each) | <u>1,100,000</u> | <u>1,100,000</u> |

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2014 (continued)

14. Tier 1 capital notes

In March 2013, the Bank issued Tier 1 capital notes with a principal amount of AED 500 million (the “Capital Notes”). Issuance of these Capital Notes was approved by the Bank’s Extra Ordinary General Meeting (EGM) in March 2013. The UAE Central Bank has also approved the facility to be considered as Tier 1 capital for regulatory purposes. These Capital Notes bear interest at a fixed rate payable semi-annually in arrears. The Capital Notes are non-cumulative perpetual securities for which there is no fixed redemption date, and are callable by the Bank subject to certain conditions. The Bank may, at its sole discretion, elect not to make an interest / coupon payment.

15. Earnings per share

The calculation of earnings per share for the three month period ended 31 March 2014 is based on earnings of **AED 98.3 million** (31 March 2013: AED 90.7 million), after deduction of **AED 17.0 million** (31 March 2013: nil) of coupon payment on Tier 1 capital notes, divided by the weighted average number of shares of **1,100 million** (31 March 2013: 1,100 million shares) outstanding during the period.

16. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Group, related parties, as defined in the IAS 24, include major shareholders of the Group, directors and officers of the Group and companies of which they are principal owners and key management personnel. Banking transactions are entered into with related parties on agreed terms and conditions approved by the Board of Directors. The significant transactions included in the condensed consolidated interim financial information are as follows:

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2014 (continued)

16. Related parties (continued)

| | 31 March 2014 AED'000 | Average balances during 2014 AED'000 | 31 December 2013 AED'000 Audited | Average balances during 2013 AED'000 Audited |
|--|--------------------------------------|---|---|--|
| Statement of financial position items | | | | |
| Loans and advances | 1,046,450 | 1,037,384 | 1,037,800 | 889,732 |
| Customer deposits | 4,387,807 | 4,203,991 | 4,061,360 | 3,445,048 |
| Investments | 18,958 | 19,287 | 19,221 | 32,388 |
| Letters of credit | 89,070 | 99,471 | 84,194 | 87,007 |
| Financial guarantees and other direct credit substitutes | 12,090 | 11,650 | 11,459 | 10,126 |
| Transaction related contingencies | 126,719 | 130,167 | 129,823 | 129,097 |
| Acceptances | 33,574 | 50,765 | 58,086 | 59,073 |
| Tier 1 capital notes | 500,000 | 500,000 | 500,000 | 386,301 |
| | 31 March 2014 AED'000 | | 31 March 2013 AED'000 | |
| Statement of income items | | | | |
| Interest income | 9,370 | | 9,186 | |
| Interest expense | 22,400 | | 23,270 | |
| Other income | 2,439 | | 4,891 | |
| Key management compensation | | | | |
| Salaries and other short-term benefits | 4,800 | | 4,160 | |
| Employee terminal benefits | 118 | | 117 | |

No provisions for impairment have been recognized in respect of loans given to related parties (31 December 2013: Nil).

The loans given to related parties amounting to **AED 1,046.5 million** (31 December 2013: AED 1,037.8 million) have been secured against collateral amounting to **AED 1,041.0 million** (31 December 2013: AED 775.7 million).

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)

For the three month period ended 31 March 2014 (continued)

17. Capital adequacy ratio

The Group's regulatory capital adequacy ratio is set by the UAE Central Bank which is 12% analysed in two tiers, of which Tier 1 capital adequacy ratio must not be less than 8%. The Group has complied with its capital adequacy calculation in accordance with Basel II Standardized Approach for credit, market and operational risks.

The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital and retained earnings (excluding current year profit); and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale, collective impairment provision and subordinated facilities. The following limits have been applied for tier 2 capital:
 - Total tier 2 capital shall not exceed 67% of tier 1 capital;
 - Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
 - Collective impairment provision shall not exceed 1.25% of credit risk weighted assets.

| | 31 March 2014 AED'000 | 31 December 2013 AED'000 Audited |
|--|--------------------------------------|---|
| Tier 1 Capital | | |
| Share capital | 1,100,000 | 1,100,000 |
| Statutory reserve | 353,647 | 314,119 |
| Special reserve | 248,647 | 209,119 |
| Retained earnings | 674,635 | 515,040 |
| Tier 1 capital notes | 500,000 | 500,000 |
| Total Tier 1 | 2,876,929 | 2,638,278 |
| Tier 2 Capital | | |
| Available-for-sale revaluation reserve | 67 | (1,864) |
| Subordinated facilities (note 11.3) | 400,000 | 400,000 |
| Collective impairment provision | 233,124 | 229,756 |
| Total Tier 2 | 633,191 | 627,892 |
| Deductions from Tier 1 and Tier 2 Capital | | |
| Investments in unconsolidated subsidiaries | - | - |
| Total capital base (a) | <u>3,510,120</u> | <u>3,266,170</u> |

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)

For the three month period ended 31 March 2014 (continued)

17. Capital adequacy ratio (continued)

| | Risk weighted equivalent 31 March 2014 AED'000 | Risk weighted equivalent 31 December 2013 AED'000 Audited |
|---|--|--|
| <i>Risk weighted assets</i> | | |
| Credit risk | 18,649,926 | 17,553,189 |
| Market risk | 4,368 | 5,592 |
| Operational risk | 1,424,312 | 821,706 |
| Total risk weighted assets (b) | 20,078,606 | 18,380,487 |
| Capital adequacy ratio (a) / (b) - % | 17.48 | 17.77 |

18. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances from the date of acquisition:

| | 31 March 2014 AED'000 | 31 March 2013 AED'000 |
|---|-----------------------------|-----------------------------|
| Cash on hand | 133,129 | 101,213 |
| Balances with the UAE Central Bank (note 18.1) | 3,520,289 | 2,086,918 |
| Due from banks with less than three months maturity | 756,644 | 763,770 |
| | ----- | ----- |
| Due to banks with less than three months maturity | 4,410,062 (857,690) | 2,951,901 (729,672) |
| | ----- | ----- |
| | <u>3,552,372</u> | <u>2,222,229</u> |

- 18.1** Balances with the UAE Central Bank include certificates of deposit. In accordance with UAE Central Bank regulations on issuance of Central Bank certificates of deposit, the Bank can enter into repurchase agreements in order to obtain short term liquidity.

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)

For the three month period ended 31 March 2014 (continued)

19. Segmental reporting

The Group uses business segments for presenting its segment information in line with the Group's management and internal reporting structure. The Group's operations are confined mainly in the UAE.

Business segments pay and receive interest, to and from Treasury on an arm's length basis to reflect allocation of capital and funding costs.

Business segments

The Group conducts its activity through the following clearly defined business segments:

Corporate and Institutional banking

Corporate and Institutional segments

The segment offers a range of products and services including credit and trade finance products, and services to large and medium sized corporate customers through separate units and to financial institutions, and accepts deposits.

Business banking segment

The segment offers a range of products and services including credit and trade finance products, and services to small and medium sized customers through separate units, and accepts deposits. The segment also offers transactional services to small and medium sized businesses.

Retail banking

The segment offers a range of products and services to individuals and high net worth individuals including personal and mortgage loans, credit cards, other transactions and balances, and accepts their deposits.

Treasury, Asset and Liability Management (ALM) and others

The segment undertakes the Group's asset and liability management centrally and is responsible for optimum utilization of resources in productive assets and management of exchange and interest positions within the limits and guidelines set by management and approved by the Board.

Treasury also offers various foreign exchange and derivative products to customers and is entrusted with the responsibility of managing the Group's investment portfolio together with Asset and Liability Committee. The Group's capital and investment in subsidiaries is recognised under this segment.

The Group has central shared services which include Operations, Risk Management, Human Resources, Finance, Information Technology, Product Development, Legal, Credit and Internal Audit. The shared services cost is allocated to business segments based on transaction and relevant drivers

National Bank of Fujairah PJSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2014 (continued)

19. Segmental reporting (continued)

The segment analysis based on business segments is set out below:

| Three month period ended 31 March 2014 – AED'000 | Corporate and Institutional segments | Business banking segment | Retail banking | Treasury, ALM and others | Consolidated |
|---|---|---------------------------------|-----------------------|---------------------------------|---------------------|
| Segment revenue | 138,929 | 60,872 | 16,744 | 23,427 | 239,972 |
| Segment operating cost | (40,012) | (24,885) | (17,628) | (5,958) | (88,483) |
| Segment operating profit / (loss) | 98,917 | 35,987 | (884) | 17,469 | 151,489 |
| Net impairment losses | (22,916) | (9,214) | (4,064) | - | (36,194) |
| Net profit / (loss) | 76,001 | 26,773 | (4,948) | 17,469 | 115,295 |
| Segment assets | 12,979,204 | 2,470,992 | 1,380,073 | 5,858,729 | 22,688,998 |
| Segment liabilities | 14,642,237 | 1,853,842 | 1,405,115 | 1,795,513 | 19,696,707 |
| Capital expenditure | - | - | - | 9,665 | 9,665 |
| Three month period ended 31 March 2013 – AED'000 | Corporate and Institutional segments | Business banking segment | Retail banking | Treasury, ALM and others | Consolidated |
| Segment revenue | 127,423 | 49,919 | 18,687 | 3,661 | 199,690 |
| Segment operating cost | (35,507) | (21,183) | (13,206) | (2,290) | (72,186) |
| Segment operating profit / (loss) | 91,916 | 28,736 | 5,481 | 1,371 | 127,504 |
| Net impairment losses | (31,105) | (3,534) | (2,173) | - | (36,812) |
| Net profit / (loss) | 60,811 | 25,202 | 3,308 | 1,371 | 90,692 |
| Segment assets | 11,954,424 | 2,217,669 | 1,245,076 | 6,038,230 | 21,455,399 |
| Segment liabilities | 13,747,369 | 1,858,687 | 975,828 | 1,843,981 | 18,425,865 |
| Capital expenditure | - | - | - | 19,385 | 19,385 |