

National Bank of Fujairah PSC
Condensed consolidated interim financial
information – (Un-audited)
For the three month period ended
31 March 2013

Condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013

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

Introduction

We have reviewed the accompanying consolidated interim statement of financial position of National Bank of Fujairah (“the Bank”) and its subsidiary (together referred to as “the Group”) as at 31 March 2013 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 2013

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

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

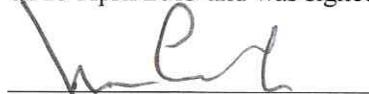
National Bank of Fujairah PSC

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

As at 31 March 2013

	Note	31 March 2013 AED'000	31 December 2012 AED'000 Audited
Assets			
Cash and balances with the UAE Central Bank	6	2,672,246	2,406,987
Due from banks and financial institutions	7	813,770	1,022,441
Loans and advances	8	12,469,573	12,196,008
Investments	10	687,886	778,832
Property and equipment and capital work-in-progress		89,693	90,514
Intangible assets		13,719	12,993
Other assets		1,060,266	1,036,841
Total assets		17,807,153	17,544,616
Liabilities			
Due to banks	11	743,000	617,079
Customer deposits	12	11,858,699	12,440,102
Term borrowings	11	1,153,551	1,153,551
Other liabilities		1,300,594	1,065,053
Total liabilities		15,055,844	15,275,785
Shareholders' equity			
Share capital	13	1,100,000	1,100,000
Statutory reserve		314,119	314,119
Special reserve		209,119	209,119
Available-for-sale revaluation reserve		5,182	3,396
Proposed dividends		-	110,000
Retained earnings		622,889	532,197
Tier 1 capital notes	14	500,000	-
Total shareholders' equity		2,751,309	2,268,831
Total liabilities and shareholders' equity		17,807,153	17,544,616

This condensed consolidated interim financial information was approved by the Board of Directors on 23 April 2013 and was signed on their behalf by:


Vince Cook
 Chief Executive Officer


Adnan Anwar
 Chief Financial Officer

The notes on pages 7 to 21 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 PSC

Consolidated interim statement of income – (Un-audited)

For the three month period ended 31 March 2013

	<i>Note</i>	Three month period ended 31 March 2013 AED'000	Three month period ended 31 March 2012 AED'000
Interest income		200,250	180,883
Interest expense		(71,368)	(62,133)
Net interest income		128,882	118,750
Net fees and commission income		49,582	41,609
Foreign exchange and derivatives income		18,767	12,571
Income from investments		1,197	1,818
Other operating income		1,262	2,670
Operating income		199,690	177,418
Operating expenses			
Employee benefits expense		(54,991)	(49,605)
Depreciation and amortization		(3,064)	(3,695)
Other operating expenses		(14,131)	(16,301)
Total operating expenses		(72,186)	(69,601)
Operating profit		127,504	107,817
Net impairment losses	9	(36,812)	(43,362)
Net profit for the period		90,692	64,455
Earnings per share (basic and diluted)	15	AED 0.08	AED 0.06

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

The notes on pages 7 to 21 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 PSC

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

For the three month period ended 31 March 2013

	Three month period ended 31 March 2013 AED'000	Three month period ended 31 March 2012 AED'000
Net profit for the period	90,692	64,455
Other comprehensive income:		
<i>Changes in available-for-sale investments:</i>		
Net fair value gains on disposal of available-for-sale investments	(444)	(1,362)
Net changes in fair value of available-for-sale investments	1,213	4,222
Others	1,017	1,220
Net change in available-for-sale-investments	1,786	4,080
Total comprehensive income for the period	92,478	68,535

The notes on pages 7 to 21 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 PSC

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

For the three month period ended 31 March 2013

	<i>Note</i>	Three month period ended 31 March 2013 AED'000	Three month period ended 31 March 2012 AED'000
Operating activities			
Net profit for the period		90,692	64,455
Adjustments for :			
Depreciation and amortization		3,064	3,695
Net impairment losses		36,812	43,362
Net fair value gains on disposal of investments		(601)	(1,314)
Net changes in fair value of investments at fair value through profit or loss		(596)	(504)
		<hr/>	<hr/>
Operating profit before working capital changes		129,371	109,694
Change in statutory reserve with the UAE Central Bank		(86,003)	(16,500)
Change in due from banks		(50,000)	-
Change in loans and advances		(310,377)	(587,147)
Change in other assets		(23,425)	1,335
Change in due to banks		(51,508)	61,559
Change in customer deposits		(581,403)	527,314
Change in other liabilities		125,541	(38,227)
		<hr/>	<hr/>
Net cash (used in) / generated from operating activities		(847,804)	58,028
Investing activities			
Purchase of property and equipment and capital work-in-progress		(2,969)	(5,149)
Purchase of investments		(124,395)	(218,999)
Proceeds from sale of investments		218,324	126,401
		<hr/>	<hr/>
Net cash generated from / (used in) investing activities		90,960	(97,747)
Financing activities			
Proceeds from issue of Tier 1 capital notes		500,000	-
		<hr/>	<hr/>
Net cash generated from financing activities		500,000	-
		<hr/>	<hr/>
Net change in cash and cash equivalents		(256,844)	(39,719)
Cash and cash equivalents at beginning of the period		2,479,073	1,764,742
Cash and cash equivalents at end of the period	18	<u>2,222,229</u>	<u>1,725,023</u>

The notes on pages 7 to 21 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 PSC

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

For the three month period ended 31 March 2013

	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 2012	1,100,000	283,539	178,539	397,550	(8,441)	110,000	-	2,061,187
Total comprehensive income for the period	-	-	-	64,455	4,080	-	-	68,535
2011 cash dividends paid	-	-	-	-	-	(110,000)	-	(110,000)
At 31 March 2012	1,100,000	283,539	178,539	462,005	(4,361)	-	-	2,019,722
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	-	-	-	-	-	(110,000)	-	(110,000)
At 31 March 2013	1,100,000	314,119	209,119	622,889	5,182	-	500,000	2,751,309

The notes on pages 7 to 21 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 PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013

1. Legal status and activities

National Bank of Fujairah ("the Bank") is a Public Shareholding 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 a fully owned subsidiary company, NBF Financial Services FZC which was established in December 2004 with limited liability status in the Fujairah Free Trade Zone to provide support services to the Bank.

The condensed consolidated interim financial information for the three month period ended 31 March 2013 comprises the Bank and its subsidiary (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 PSC

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

For the three month period ended 31 March 2013 (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 financial statements on the Group's website;
- Management analysis in Arabic and English newspapers in a manner that ensures wide dissemination; and
- Publication of annual report.

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

3. Basis of preparation

Statement of compliance

The condensed consolidated interim financial information has been prepared in accordance with IFRS, 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 2012.

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 2012.

Standards that are effective for the Group's accounting period beginning on 1 January 2013

There are no new standards and amendments to published standards or International Financial Reporting Interpretations Committee (IFRIC) interpretations that are effective for the first time for the financial year beginning on 1 January 2013 that would be expected to have a material impact on the Group.

IFRS - 9, 'Financial instruments' has been issued but not effective for the Group's accounting period beginning 1 January 2013 and has not been early adopted by the Group:

National Bank of Fujairah PSC

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

For the three month period ended 31 March 2013 (continued)

4. Significant accounting policies (continued)

▪ IFRS - 9, 'Financial instruments' (effective 1 January 2015), 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 is yet to assess IFRS 9's full impact and intends to adopt IFRS 9 no later than the accounting period beginning on 1 January 2015. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the IASB.

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 judgements 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 2012.

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 2012.

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (continued)

6.	Cash and balances with the UAE Central Bank	31 March 2013 AED'000	31 December 2012 AED'000 Audited
	Cash on hand	101,213	100,480
	Certificates of deposit (CDs) with the UAE Central Bank	1,625,000	1,525,000
	Other balances with the UAE Central Bank (note 6.1)	946,033	781,507
		<u>2,672,246</u>	<u>2,406,987</u>
6.1	Other balances with the UAE Central Bank include regulatory cash reserve deposits of AED 484.1 million (31 December 2012: AED 398.1 million).		
7.	Due from banks and financial institutions	31 March 2013 AED'000	31 December 2012 AED'000 Audited
7.1	<i>By type</i>		
	Placements	705,638	921,067
	Current accounts	108,132	101,374
		<u>813,770</u>	<u>1,022,441</u>
7.2	<i>By geographical area</i>		
	Within UAE	474,220	662,246
	GCC countries	168,301	79,187
	Others	171,249	281,008
		<u>813,770</u>	<u>1,022,441</u>
7.3	<i>The currency wise analysis is set out below:</i>		
	AED	395,251	558,185
	USD	259,228	321,376
	EURO	21,298	49,501
	GBP	5,723	28,942
	Others	132,270	64,437
		<u>813,770</u>	<u>1,022,441</u>

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (continued)

8. Loans and advances

	31 March 2013 AED'000	31 December 2012 AED'000 Audited
8.1 Loans and advances by type:		
Overdrafts	1,134,715	1,317,162
Term loans	8,466,947	8,110,586
Loans against trust receipts	1,905,377	1,852,710
Bills discounted	1,188,208	1,101,314
Bills drawn under letters of credit	600,232	604,920
	<u>13,295,479</u>	<u>12,986,692</u>
Allowance for impairment losses (note 9)	(825,906)	(790,684)
Net loans and advances	<u>12,469,573</u>	<u>12,196,008</u>

8.2 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.

	31 March 2013 AED'000	31 December 2012 AED'000
Contingent liabilities:		
- Letters of credit covering movement of goods	1,236,906	1,175,298
- Financial guarantees and other direct credit substitutes	545,278	477,809
- Bid bonds, performance bonds and other transaction related contingencies	3,629,202	3,549,490
	<u>5,411,386</u>	<u>5,202,597</u>
Commitments:		
- Undrawn commitments – credit related	10,781,388	11,076,002
- Others	35,429	31,158
	<u>10,816,817</u>	<u>11,107,160</u>
	<u>16,228,203</u>	<u>16,309,757</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 advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (continued)

9. Allowance for impairment losses on loans and advances

	31 March 2013 AED'000	31 December 2012 AED'000 Audited
<i>Movement in allowances for impairment losses</i>		
Balance at 1 January	790,684	652,218
Net allowance for impairment losses	36,812	173,707
Written-off during the period / year	(1,590)	(35,241)
	<u>825,906</u>	<u>790,684</u>

10. Investments

	31 March 2013 AED'000	31 December 2012 AED'000 Audited
Investments at fair value through profit or loss (FVPL) (note 10.1)	12,832	27,682
Available-for-sale (AFS)		
Debt securities (note 10.2)	482,319	409,835
Other investments	761	629
	<u>483,080</u>	<u>410,464</u>
Held-to-maturity (HTM)		
Debt securities (note 10.2)	191,974	340,686
	<u>687,886</u>	<u>778,832</u>

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 674.3 million** (31 December 2012: AED 750.5 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 500.5 million** (31 December 2012: AED 581.6 million).

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (continued)

10. Investments (continued)

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

	31 March 2013 AED'000	31 December 2012 AED'000 Audited
Government	89,984	104,565
Banks and financial institutions	531,535	593,013
Others	66,367	81,254
	<u>687,886</u>	<u>778,832</u>

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

Within UAE	345,587	493,756
GCC Countries	-	14,909
Others	342,299	270,167
	<u>687,886</u>	<u>778,832</u>

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

AED	303,702	451,556
USD	224,213	215,973
EURO	131,941	111,303
GBP	28,030	-
	<u>687,886</u>	<u>778,832</u>

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (continued)

11. Due to banks and term borrowings

	31 March 2013 AED'000	31 December 2012 AED'000 Audited
<i>By type:</i>		
Club term loan facility (note 11.1)	863,155	863,155
Bilateral borrowing (note 11.2)	290,396	290,396
	<u>1,153,551</u>	<u>1,153,551</u>
Short-term borrowings	743,000	617,079
	<u>1,896,551</u>	<u>1,770,630</u>
<i>By geographical area:</i>		
Within UAE	425,629	353,135
GCC Countries	183,650	183,650
Others	1,287,272	1,233,845
	<u>1,896,551</u>	<u>1,770,630</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 carries a floating rate which is the aggregate of margin plus LIBOR and is repayable in full on 12 June 2014.

Under the terms of the agreement, the Group is required to maintain a minimum capital adequacy ratio calculated on the basis of Basel II Accord as applicable in the UAE; to maintain a minimum tangible net worth of USD 425 million; and to maintain its ratio of impaired loans to total funded gross loans, which shall not be greater than ten (10%) percent at any time, subject to the exclusion of certain facilities as stipulated in the agreement. The respective conditions stipulated above have been complied with, as at the reporting date.

- 11.2 During 2012, the Group has arranged three term loan facilities through banks amounting to **AED 290.4 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, second 2 years and the third 3 years after the disbursement date.

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (continued)

12. Customer deposits

	31 March 2013 AED'000	31 December 2012 AED'000 Audited
<i>By type:</i>		
Demand and margin deposits	3,233,845	2,749,291
Saving deposits	67,512	52,289
Fixed term and notice deposits	8,157,342	8,595,918
Subordinated debt (note 12.1 & 12.2)	400,000	1,042,604
	<u>11,858,699</u>	<u>12,440,102</u>
<i>By geographical area:</i>		
Within UAE	11,241,035	11,833,520
Others	617,664	606,582
	<u>11,858,699</u>	<u>12,440,102</u>

- 12.1 In March 2013, the Group repaid its AED 643 million subordinated loan to the UAE Ministry of Finance in full and ahead of its original maturity date of 2016, having received all necessary approvals from the UAE Central Bank and the UAE Ministry of Finance.

The Group received deposits aggregating to AED 643 million in October and November 2008 from the UAE Ministry of Finance. On 31 December 2009, the Group entered into an agreement with UAE Ministry of Finance, through which these deposits were subordinated debt subject to certain conditions as set out in the agreement and included in Tier 2 capital. As per the terms of that conversion and subordination agreement and subject to certain conditions to be adhered to, the tenure of the loan extended to 7 years from the date of conversion and was payable in full on maturity with an early repayment option. The loan carried stepped up pricing over the tenure, with interest payable quarterly.

- 12.2 On 19 August 2008, the Group arranged a subordinated term loan facility with a finance company amounting to AED 400 million. The facility carries interest rate which is the aggregate of margin and EIBOR, payable quarterly commencing from 19 November 2008. As per the terms of the facility, the full principal amount of the facility is to be repaid on 19 August 2018. The UAE Central Bank has approved the facility to be considered as Tier 2 capital for regulatory purposes.

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (continued)

13. Shareholders' equity

Share capital	31 March 2013 AED'000	31 December 2012 AED'000 Audited
<i>Authorised, issued and fully paid:</i> 1,100,000,000 shares of AED 1 each (2012: 1,100,000,000 shares of AED 1 each)	<u>1,100,000</u>	<u>1,100,000</u>

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 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 2013 is based on earnings of **AED 90.7 million** (31 March 2012: AED 64.5 million) divided by the weighted average number of shares of **1,100 million** (31 March 2012: 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 International Accounting Standard No. 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 PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (continued)

16. Related parties (continued)

	31 March 2013 AED'000	Average balances during 2013 AED'000	31 December 2012 AED'000 Audited	Average balances during 2012 AED'000 Audited
Statement of financial position items				
Loans and advances	778,983	820,161	971,587	907,729
Customer deposits	3,094,974	3,385,036	3,311,737	3,117,011
Investments	40,191	40,128	40,446	40,236
Letters of credit	98,844	72,546	47,313	59,109
Financial guarantees and other direct credit substitutes	9,003	9,237	9,727	15,142
Transaction related contingencies	99,472	105,535	101,889	112,588
Acceptances	58,107	62,016	76,649	54,581
Tier 1 capital notes	500,000	38,889	-	-
	31 March 2013 AED'000		31 March 2012 AED'000	
Statement of income items				
Interest income	8,979		9,801	
Interest expense	23,269		18,664	
Other income	4,807		1,557	
Key management compensation				
Salaries and other short-term benefits	4,160		3,408	
Employee terminal and other long-term benefits	117		83	

No provisions for impairment have been recognized in respect of loans given to related parties (31 December 2012: Nil).

The loans given to related parties amounting to **AED 779.0 million** (31 December 2012: AED 971.6 million) have been secured against collateral amounting to **AED 149.7 million** (31 December 2012: AED 149.7 million).

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (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 total risk weighted assets.

	31 March 2013 AED'000	31 December 2012 AED'000 Audited
Tier 1 Capital		
Share capital	1,100,000	1,100,000
Statutory reserve	314,119	283,539
Special reserve	209,119	178,539
Retained earnings	532,197	397,550
Tier 1 capital notes	500,000	-
Total Tier 1	2,655,435	1,959,628
Tier 2 Capital		
Available-for-sale revaluation reserve	5,182	3,396
Subordinated facilities (note 12.1 & 12.2)	400,000	914,083
Collective impairment provision	192,583	178,583
Total Tier 2	597,765	1,096,062
Deductions from Tier 1 and Tier 2 Capital		
Investments in unconsolidated subsidiaries	-	-
Total capital base (a)	<u>3,253,200</u>	<u>3,055,690</u>

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (continued)

17. Capital adequacy ratio (continued)

	Risk weighted equivalent 31 March 2013 AED'000	Risk weighted equivalent 31 December 2012 AED'000
<i>Risk weighted assets</i>		
Credit risk	15,557,795	15,169,519
Market risk	915	3,628
Operational risk	821,706	728,918
Total risk weighted assets (b)	16,380,416	15,902,065
Capital adequacy ratio (a) / (b) - %	19.86	19.22

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 2013 AED'000	31 March 2012 AED'000
Cash on hand	101,213	72,755
Balances with the UAE Central Bank (note 18.1)	2,086,918	1,599,671
Due from banks with less than three months maturity	763,770	678,035
	-----	-----
Due to banks with less than three months maturity	2,951,901 (729,672)	2,350,461 (625,438)
	-----	-----
	<u>2,222,229</u>	<u>1,725,023</u>

18.1 Balances with the UAE Central Bank include certificates of deposit which are negotiable with the UAE Central Bank.

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

For the three month period ended 31 March 2013 (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:

Wholesale banking

The segment offers a range of products and services including credit and trade finance products, and services to large sized and small to medium size corporate customers through separate units and to financial institutions, and accepts deposits. The segment also offers transactional services to small-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 subsidiary 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 transactions and relevant drivers.

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Notes to the condensed consolidated interim financial information – (Un-audited)
For the three month period ended 31 March 2013 (continued)

19. Segmental reporting (continued)

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

Three month period ended 31 March 2013	Wholesale banking	Retail banking	Treasury, ALM & others	Consolidated
	----- AED'000 -----			
Segment revenue	179,741	16,286	3,663	199,690
Segment operating cost	(56,699)	(13,165)	(2,322)	(72,186)
Net impairment losses	(32,901)	(3,911)	-	(36,812)
Net profit / (loss)	90,141	(790)	1,341	90,692
31 March 2013				
Segment assets	12,684,566	816,983	4,305,604	17,807,153
Segment liabilities	11,781,787	1,141,378	2,132,679	15,055,844
Capital expenditure	-	-	1,964	1,964
Three month period ended 31 March 2012	Wholesale banking	Retail banking	Treasury, ALM & others	Consolidated
	----- AED'000 -----			
Segment revenue	152,628	10,779	14,011	177,418
Segment operating cost	(54,889)	(12,737)	(1,975)	(69,601)
Net impairment losses	(40,648)	(2,714)	-	(43,362)
Net profit / (loss)	57,091	(4,672)	12,036	64,455
31 December 2012				
Segment assets	12,433,647	784,002	4,326,967	17,544,616
Segment liabilities	11,796,838	992,165	2,486,782	15,275,785
Capital expenditure	-	-	24,287	24,287