

**National Bank of Fujairah PSC**  
**Condensed consolidated interim financial statements – (Un-audited)**  
**For the six month period ended 30 June 2010**

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**For the six month period ended 30 June 2010**

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## **Independent auditors' report on review of condensed consolidated interim financial information**

### **To the Shareholders National Bank of Fujairah PSC**

#### *Introduction*

We have reviewed the accompanying condensed consolidated interim statement of financial position of National Bank of Fujairah ("the Bank") and its subsidiary (together referred to as "the Group") as at 30 June 2010 and the condensed consolidated interim statement of comprehensive income (comprising a condensed consolidated interim statement of comprehensive income and a separate condensed consolidated interim income statement), condensed consolidated interim statement of changes in equity and condensed consolidated interim statement of cash flows for the six month period then ended (the condensed consolidated interim financial information). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 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 as at 30 June 2010 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG  
Vijendranath Malhotra  
Registration No. 48B

21 JUL 2010

# National Bank of Fujairah PSC

## Condensed consolidated interim statement of financial position – (Un-audited)

As at 30 June 2010

	Note	30 June 2010 AED'000	31 Dec 2009 AED'000 Audited
<b>Assets</b>			
Cash and balances with UAE Central Bank		2,506,408	2,345,424
Due from banks	6	178,269	275,964
Loans and advances	7&8	8,225,500	7,816,835
Investments	9	612,490	716,221
Property and equipment		86,966	90,436
Intangible assets		11,585	14,159
Capital work-in-progress		1,469	1,081
Other assets		857,866	630,761
<b>Total assets</b>		<b>12,480,553</b>	<b>11,890,881</b>
<b>Liabilities</b>			
Due to banks	10	511,625	405,364
Term borrowings	10	756,427	766,681
Customer deposits	11	8,587,326	8,394,487
Other liabilities		863,595	655,825
<b>Total liabilities</b>		<b>10,718,973</b>	<b>10,222,357</b>
<b>Shareholders' equity</b>			
Share capital	12	1,100,000	1,100,000
Statutory reserve		238,360	238,360
Special reserve		133,360	133,360
Available-for-sale revaluation reserve		(7,417)	(17,508)
Retained earnings		297,277	214,312
<b>Total shareholders' equity</b>		<b>1,761,580</b>	<b>1,668,524</b>
<b>Total liabilities and shareholders' equity</b>		<b>12,480,553</b>	<b>11,890,881</b>

These condensed consolidated interim financial statements were approved by the Board of Directors on 21 July 2010 and are signed on their behalf by:

  
 Vince Cook  
 Chief Executive Officer

  
 Adnan Anwar  
 Chief Financial Officer

The notes on pages 7 to 18 form an integral part of these condensed consolidated interim financial statements.

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

# National Bank of Fujairah PSC

## Condensed consolidated interim statement of income – (Un-audited)

For the six month period ended 30 June 2010

	Note	Six month period ended 30 June 2010 AED'000	Six month period ended 30 June 2009 AED'000	Three month period ended 30 June 2010 AED'000	Three month period ended 30 June 2009 AED'000
Interest income		298,903	341,297	151,101	159,693
Interest expense		(123,846)	(187,042)	(63,475)	(82,065)
<b>Net interest income</b>		<b>175,057</b>	154,255	<b>87,626</b>	77,628
Net fees and commission income		78,093	63,525	43,070	37,024
Foreign exchange income		20,386	18,319	11,460	9,365
Net gain on revaluation of derivative financial instruments		682	-	281	-
Other operating income		4,313	3,783	1,698	1,740
<b>Operating income</b>		<b>278,531</b>	239,882	<b>144,135</b>	125,757
Impairment losses (net)	8	(97,173)	(89,264)	(49,617)	(65,108)
Income from investments		3,885	32,257	2,160	33,054
<b>Net operating income</b>		<b>185,243</b>	182,875	<b>96,678</b>	93,703
<b>Operating expenses</b>					
Employee benefits expense		(72,314)	(84,315)	(36,678)	(41,715)
Depreciation and amortised cost		(8,120)	(7,857)	(3,948)	(4,246)
Other operating expenses		(21,844)	(30,029)	(11,217)	(17,402)
<b>Total operating expenses</b>		<b>(102,278)</b>	(122,201)	<b>(51,843)</b>	(63,363)
<b>Profit for the period</b>		<b>82,965</b>	60,674	<b>44,835</b>	30,340
<b>Earnings per share (basic and diluted)</b>	13	<b>AED 0.08</b>	AED 0.06	<b>AED 0.04</b>	AED 0.03

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

The notes on pages 7 to 18 form an integral part of these condensed consolidated interim financial statements.

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

# National Bank of Fujairah PSC

## Condensed consolidated interim statement of comprehensive income – (Un-audited)

For the six month period ended 30 June 2010

	Six month period ended 30 June 2010 AED'000	Six month Period ended 30 June 2009 AED'000	Three month period ended 30 June 2010 AED'000	Three month period ended 30 June 2009 AED'000
<b>Profit for the period</b>	<b>82,965</b>	60,674	<b>44,835</b>	30,340
<b>Other comprehensive income:</b>				
<i>Changes in available-for-sale investments:</i>				
Adjustment on maturity of available-for-sale investment	-	500	-	-
Amortisation of reclassified investments	2,427	2,855	1,220	1,436
Realised gains on sale of available-for-sale investments	(735)	(42)	(507)	(42)
Revaluation of available-for-sale investments	8,399	(1,058)	5,956	(1,227)
<b>Net change in available-for-sale-investments</b>	<b>10,091</b>	2,255	<b>6,669</b>	167
<b>Total comprehensive income for the period</b>	<b>93,056</b>	62,929	<b>51,504</b>	30,507

The notes on pages 7 to 18 form an integral part of these condensed consolidated interim financial statements.

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

# National Bank of Fujairah PSC

## Condensed consolidated interim statement of cash flows – (Un-audited)

For the six month period ended 30 June 2010

Operating activities	Note	Six month period ended 30 June 2010 AED'000	Six month Period ended 30 June 2009 AED'000
<b>Profit for the period</b>		<b>82,965</b>	60,674
Adjustments for :			
Depreciation and amortised cost		8,120	7,857
Gain on disposal of property and equipment		(12)	-
Impairment losses (net)		97,173	89,264
Realised gains on investments		(1,908)	(24,930)
Unrealised gains on investments		(1,977)	(7,327)
		-----	-----
<b>Operating profit before working capital changes</b>		<b>184,361</b>	125,538
Change in due from banks		-	10,252
Change in loans and advances		(505,838)	589,738
Change in other assets		(227,105)	(70,445)
Change in due to banks		(31,223)	13,723
Change in customer deposits		192,839	(193,874)
Change in other liabilities		207,770	35,189
		-----	-----
<b>Net cash (used in) / generated from operating activities</b>		<b>(179,196)</b>	510,121
<b>Investing activities</b>			
Purchase of property and equipment and capital work-in-progress		(2,464)	(6,266)
Proceeds from sale of property and equipment		12	-
Purchase of investments		(199,660)	(298,416)
Proceeds from sale of investments		317,367	492,788
		-----	-----
<b>Net cash generated from investing activities</b>		<b>115,255</b>	188,106
<b>Financing activities</b>			
Change in syndicated borrowing		(10,254)	812
		-----	-----
<b>Net cash (used in) / generated from financing activities</b>		<b>(10,254)</b>	812
		-----	-----
<b>Net change in cash and cash equivalents</b>		<b>(74,195)</b>	699,039
Cash and cash equivalents at beginning of the period		2,287,075	1,292,234
		-----	-----
<b>Cash and cash equivalents at end of the period</b>	16	<b>2,212,880</b>	1,991,273

The notes on pages 7 to 18 form an integral part of these condensed consolidated interim financial statements.

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

# National Bank of Fujairah PSC

## Condensed consolidated interim statement of changes in equity – (Un-audited)

For the six month period ended 30 June 2010

	Share capital AED'000	Statutory reserve AED'000	Special reserve AED'000	Retained earnings AED'000	Available- for-sale revaluation reserve AED'000	Total AED'000
At 1 January 2009	1,100,000	227,929	122,929	130,857	(23,162)	1,558,553
Total comprehensive income for the period	-	-	-	60,674	2,255	62,929
<b>At 30 June 2009</b>	<b><u>1,100,000</u></b>	<b><u>227,929</u></b>	<b><u>122,929</u></b>	<b><u>191,531</u></b>	<b><u>(20,907)</u></b>	<b><u>1,621,482</u></b>
At 1 January 2010	1,100,000	238,360	133,360	214,312	(17,508)	1,668,524
Total comprehensive income for the period	-	-	-	82,965	10,091	93,056
<b>At 30 June 2010</b>	<b><u>1,100,000</u></b>	<b><u>238,360</u></b>	<b><u>133,360</u></b>	<b><u>297,277</u></b>	<b><u>(7,417)</u></b>	<b><u>1,761,580</u></b>

The notes on pages 7 to 18 form an integral part of these condensed consolidated interim financial statements.

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 statements – (Un-audited)

For the six month period ended 30 June 2010

### 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 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 twelve branches in Fujairah, Abu Dhabi, Dubai, Sharjah, Dibba, Jebel Ali, Musaffah, Masafi, Qidfah, Deira, Ajman and Tawian.

The Bank has one 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 statements for the six month period ended 30 June 2010 comprise 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, the rules of the Central Bank (lead regulator) and their Basel II Pillar 3 guidelines, and the listing requirements of 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; at the same time it does not jeopardize its competitive position.

# National Bank of Fujairah PSC

Notes (*continued*)

## 2. Disclosure policy (*continued*)

### b) Frequency and medium of disclosure

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

- Sending reviewed quarterly 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;
- Publication of annual audited financial statements in both Arabic and English newspapers after the approval in the Annual General Meeting (AGM);
- Management analysis in Arabic and English newspapers in a manner that ensures wide dissemination; and
- Publication of annual report.

## 3. Basis of preparation

### Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34: *Interim Financial Reporting*. 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 2009.

## 4. Significant accounting policies

The accounting policies and methods of computation applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its audited consolidated financial statements as at and for the year ended 31 December 2009.

### Key accounting estimates and judgments

The preparation of the condensed consolidated interim financial statements 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 these condensed consolidated interim financial statements, 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 2009.

# National Bank of Fujairah PSC

Notes (continued)

## 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 2009.

6. Due from banks	30 June 2010 AED'000	31 Dec 2009 AED'000 Audited
By geographical area		
Within UAE	78,634	137,664
GCC countries	24,532	1,987
Others	75,103	136,313
	<u>178,269</u>	<u>275,964</u>

6.1 The currency wise analysis of due from banks is set out below:

	30 June 2010 AED'000	31 Dec 2009 AED'000 Audited
AED	53,866	82,570
USD	7,439	133,644
EURO	70,643	23,368
GBP	27,258	19,951
Others	19,063	16,431
	<u>178,269</u>	<u>275,964</u>

## 7. Loans and advances

7.1 Loans and advances by type:	30 June 2010 AED'000	31 Dec 2009 AED'000 Audited
Overdrafts	1,295,516	1,153,397
Term loans	5,145,859	5,222,982
Loans against trust receipts	1,045,147	926,769
Bills discounted	772,510	536,010
Bills drawn under letters of credit	533,949	456,899
	<u>8,792,981</u>	<u>8,296,057</u>
Allowance for impairment losses (note 8)	(567,481)	(479,222)
Net loans and advances	<u>8,225,500</u>	<u>7,816,835</u>

# National Bank of Fujairah PSC

Notes (continued)

## 7. Loans and advances (continued)

### 7.2 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 statement of financial position.

	30 June 2010 AED'000	31 Dec 2009 AED'000 Audited
<b>Contingent liabilities:</b>		
- Letters of credit covering movement of goods	1,146,202	966,461
- Financial guarantees and other direct credit substitutes	371,784	372,182
- Bid bonds, performance bonds and other transaction related contingencies	3,516,407	3,195,693
	<u>5,034,393</u>	<u>4,534,336</u>

#### Commitments and others:

- Undrawn commitments - credit related	8,377,658	6,815,277
- Others	38,202	44,224

These contingent liabilities and commitments have off balance sheet credit risk and related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are 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.

## 8. Allowance for impairment losses on loans and advances

	30 June 2010 AED'000	31 Dec 2009 AED'000 Audited
Movement in allowances for impairment losses		
Balance at 1 January	479,222	298,630
Provided during the period / year	115,828	252,734
Released during the period / year	(18,655)	(38,449)
Net allowance for impairment losses	97,173	214,285
Written-off during the period / year	(8,914)	(33,693)
Balance at 30 June / 31 December	<u>567,481</u>	<u>479,222</u>

# National Bank of Fujairah PSC

Notes (continued)

## 9. Investments

	30 June 2010 AED'000	31 Dec 2009 AED'000 Audited
<b>Investments at fair value through profit or loss (FVPL)</b>		
Designated:		
Debt securities (note 9.1)	10,441	96,787
Externally managed portfolios (note 9.2)	21,785	33,730
Other investments (note 9.3)	19,226	22,872
	<u>51,452</u>	<u>153,389</u>
<b>Available for sale (AFS)</b>		
Debt securities (note 9.1)	271,947	264,583
Other investments (note 9.3)	1,277	-
	<u>273,224</u>	<u>264,583</u>
<b>Held to maturity (HTM)</b>		
Debt securities (note 9.1)	287,814	298,249
	<u>612,490</u>	<u>716,221</u>

9.1 **Debt securities** represent the Group's investments in bonds and notes. These include floating rate securities amounting to **AED 540 million** (31 Dec 2009: AED 570 million). These securities are quoted on internationally recognised platforms of Reuter and Bloomberg and are liquid in normal market conditions.

9.2 **Externally managed portfolios** include international funds with no fixed maturities and coupon rates. The portfolio is segregated into liquid and growth portfolios with a view to enhancing returns on liquid funds and profitability respectively. The fair values of these investments are based on the net asset values provided by the fund managers. The Bank had decided to liquidate high risk fund investments in 2008 which reduced significantly since then and residual investments are in the process of redemption.

9.3 **Other investments** mainly comprise investments in private equity and funds invested in a bond previously maintained under a discretionary trust.

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

	30 June 2010 AED'000	31 Dec 2009 AED'000 Audited
Government	88,207	99,966
Banks and financial institutions	411,504	489,906
Others	112,779	126,349
	<u>612,490</u>	<u>716,221</u>

# National Bank of Fujairah PSC

Notes (continued)

## 9. Investments (continued)

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

	<b>30 June 2010</b> <b>AED'000</b>	31 Dec 2009 AED'000 Audited
Within UAE	470,473	580,682
GCC Countries	45,813	46,405
Others	96,204	89,134
	<u>612,490</u>	<u>716,221</u>

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

	<b>30 June 2010</b> <b>AED'000</b>	31 Dec 2009 AED'000 Audited
AED	445,799	517,932
USD	111,498	162,111
EURO	49,161	29,679
GBP	6,032	6,499
	<u>612,490</u>	<u>716,221</u>

## 10. Due to banks and term borrowings

	<b>30 June 2010</b> <b>AED'000</b>	31 Dec 2009 AED'000 Audited
<b>By type:</b>		
Syndicated borrowings from banks (note 10.1)	756,427	766,681
Short-term borrowings	511,625	405,364
	<u>1,268,052</u>	<u>1,172,045</u>
<b>By geographical area:</b>		
Within UAE	183,661	91,836
GCC Countries	2	19,002
Others	1,084,389	1,061,207
	<u>1,268,052</u>	<u>1,172,045</u>

10.1 On 31 July 2008, the Group arranged a term loan facility of **AED 756 million** (comprising US\$ 190 million and Euro 13 million) through a syndicate of banks. The facility carries a floating rate which is the aggregate of margin and LIBOR and is repayable in full on 25 June 2011. 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 and to maintain a minimum tangible net worth of US\$ 350 million.

# National Bank of Fujairah PSC

Notes (continued)

## 11. Customer deposits

	<b>30 June 2010</b> <b>AED'000</b>	31 Dec 2009 AED'000 Audited
<i>By type</i>		
Demand and margin deposits	1,844,370	1,649,337
Saving deposits	33,458	34,915
Fixed term and notice deposits (note 11.1, 11.2 & 11.3)	6,709,498	6,710,235
	<u>8,587,326</u>	<u>8,394,487</u>
<i>By geographical area</i>		
Within UAE	8,113,797	7,954,899
Others	473,529	439,588
	<u>8,587,326</u>	<u>8,394,487</u>

11.1 Fixed term and notice deposits include structured deposit notes which are fair valued through statement of income amounting to **AED 151 million** (31 December 2009: AED 153 million), being the fair value as at 30 June 2010.

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

11.3 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 Central Bank has approved the facility to be considered as Tier 2 capital for regulatory purposes.

## 12. Shareholders' equity

### 12.1 Share capital

	<b>30 June 2010</b> <b>AED'000</b>	31 Dec 2009 AED'000 Audited
<i>Authorised, issued and fully paid:</i>		
1,100,000,000 shares of AED 1 each (2009: 1,100,000,000 shares of AED 1 each)	<u>1,100,000</u>	<u>1,100,000</u>

## 13. Earnings per share

The calculation of earnings per share for the six month period ended 30 June 2010 is based on earnings of **AED 82,965 thousand** (30 June 2009: AED 60,674 thousand) divided by the weighted average number of shares of **1,100,000 thousand** (30 June 2009: 1,100,000 thousand shares) outstanding during the period.

# National Bank of Fujairah PSC

Notes (continued)

## 13. Earnings per share (continued)

The calculation of earnings per share for the three month period ended 30 June 2010 is based on earnings of **AED 44,835 thousand** (30 June 2009: AED 30,340 thousand) divided by the weighted average number of shares of **1,100,000 thousand** (30 June 2009: 1,100,000 thousand shares) outstanding during the period.

## 14. 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 financial statements are as follows:

	30 June 2010 AED'000	Average balances during 2010 AED'000	31 December 2009 AED'000 Audited	Average balances during 2009 AED'000 Audited
<b>Balance sheet items</b>				
Loans and advances	363,074	338,485	314,218	290,793
Customer deposits	1,915,112	1,882,972	1,834,474	1,867,843
Letters of credit	115,595	163,306	113,562	108,188
Financial guarantees and other direct credit substitutes	18,277	20,630	23,443	20,768
Transaction related contingencies	121,360	116,187	112,719	131,180
	<b>30 June 2010 AED'000</b>		<b>30 June 2009 AED'000</b>	
<b>Income statement items</b>				
Interest income	12,274		7,701	
Interest expense	32,073		44,136	
Other income	3,642		2,036	
<b>Key management personnel</b>				
Salaries and other short-term benefits	6,340		6,993	
Employee terminal and other long-term benefits	76		186	

# National Bank of Fujairah PSC

Notes (continued)

## 15. Capital adequacy ratio

The Group's regulatory capital adequacy ratio is set by the Central Bank. The Central Bank has increased the capital adequacy ratio required to be maintained by Banks to 11% analysed into two Tiers, of which Tier 1 capital adequacy must not be less than 7% by 30 September 2009 and 12 % analysed in two Tiers, of which Tier 1 capital adequacy must not be less than 8% by 30 June 2010. Accordingly, the Bank has complied with its capital adequacy calculation in accordance with Basel II Standardized Approach for credit and market risks and for the operational risk charge on Basic Indicator Approach.

The Bank'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
  - General provision shall not exceed 1.25% of total risk weighted assets.

	30 June 2010 AED'000	31 Dec 2009 AED'000 Audited
<b>Tier 1 Capital</b>		
Share capital	1,100,000	1,100,000
Statutory reserve	238,360	227,929
Special reserve	133,360	122,929
Retained earnings	214,312	141,264
<b>Total Tier 1</b>	<b>1,686,032</b>	1,592,122
<b>Tier 2 Capital</b>		
Available-for-sale revaluation reserve	(7,417)	(17,508)
Subordinated facilities (note 11.2 & 11.3)	843,016	796,061
Collective impairment provision	149,164	135,596
<b>Total Tier 2</b>	<b>984,763</b>	914,149
<b>Total capital base (a)</b>	<b><u>2,670,795</u></b>	<b><u>2,506,271</u></b>

# National Bank of Fujairah PSC

Notes (continued)

## 15. Capital adequacy ratio (continued)

### *Risk weighted assets*

	<b>30 June 2010</b>	31 Dec 2009
	<b>Risk weighted equivalent AED'000</b>	Risk weighted equivalent AED' 000 Audited
<b>Credit risk</b>	11,153,263	10,430,736
<b>Market risk</b>	2,074	47,121
<b>Operational risk</b>	777,770	733,235
<b>Total risk weighted assets (b)</b>	<b>11,933,107</b>	11,211,092
<b>Capital adequacy ratio (a) / (b) - %</b>	<b>22.38</b>	22.36
Capital adequacy ratio (Basel I)	24.23	24.16

## 16. 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:

	<b>30 June 2010</b>	30 June 2009
	<b>AED'000</b>	AED'000
Cash on hand	48,951	68,272
Balances with Central Bank of UAE	2,457,457	1,739,192
Due from banks with less than three months maturity	178,269	703,393
	<u>2,684,677</u>	<u>2,510,857</u>
Due to banks with less than three months maturity	(471,797)	(519,584)
	<u><u>2,212,880</u></u>	<u><u>1,991,273</u></u>

# National Bank of Fujairah PSC

Notes (continued)

## 17. 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.

#### *Consumer 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 and investments*

The segment undertakes the Group's liquidity 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.

#### *Head Office and others*

The Group's capital and investment in subsidiary is recognised under Head Office. The Head Office lends capital to treasury on an arms length basis for the purposes of segment performance. The Group has central shared services which include Operations, Risk Management, Human Resources, Finance, Information Technology and Internal Audit which are recognised centrally under Head Office. The Group allocates the shared services cost to business segments based on transaction and relevant drivers.

# National Bank of Fujairah PSC

Notes (continued)

## 17. Segmental reporting (continued)

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

Six month period ended 30 June 2010	Wholesale banking	Consumer banking	Treasury & investments	Head office & others	Consolidated
	.....AED "000".....				
Segment revenue	227,525	32,553	10,810	11,528	282,416
Segment operating cost	(87,405)	(9,737)	(5,136)		(102,278)
Impairment losses	(86,639)	(10,534)			(97,173)
Profit / (loss)	53,481	12,282	5,674	11,528	82,965
<b>30 June 2010</b>					
Segment assets	8,393,733	670,103	3,316,697	100,020	12,480,553
Segment liabilities	8,057,405	512,425	2,132,867	16,276	10,718,973
Capital expenditure				2,076	2,076
Six month period ended 30 June 2009	Wholesale banking	Consumer banking	Treasury & investments	Head office & others	Consolidated
	.....AED "000".....				
Segment revenue	197,225	39,340	7,164	28,410	272,139
Segment operating cost	(101,008)	(15,293)	(5,900)		(122,201)
Impairment losses	(80,874)	(8,390)			(89,264)
Profit / (loss)	15,343	15,657	1,264	28,410	60,674
<b>31 December 2009</b>					
Segment assets	7,795,323	636,274	3,353,608	105,676	11,890,881
Segment liabilities	7,633,594	499,729	2,079,857	9,177	10,222,357
Capital expenditure				10,202	10,202

## 18. Comparative figures

Certain comparative figures have been re-classified where necessary to conform to the current period's presentation.