

National Bank of Fujairah PSC
Condensed consolidated interim financial
information – (Un-audited)
For the six month period ended
30 June 2013

Condensed consolidated interim financial information – (Un-audited)
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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 subsidiaries (together referred to as “the Group”) as at 30 June 2013 and the related consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six 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
24 July 2013

Jacques E Fakhoury
Registered Auditor Number 379
Dubai, United Arab Emirates

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PricewaterhouseCoopers, Emaar Square, Building 4, 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

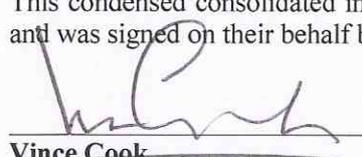
National Bank of Fujairah PSC

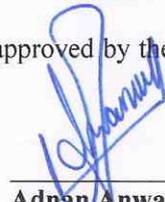
Consolidated interim statement of financial position – (Un-audited)

As at 30 June 2013

	Note	30 June 2013 AED'000	31 December 2012 AED'000 Audited
Assets			
Cash and balances with the UAE Central Bank	6	2,606,529	2,406,987
Due from banks and financial institutions	7	614,565	1,022,441
Loans and advances	8	13,315,231	12,196,008
Investments	10	544,688	778,832
Property and equipment and capital work-in-progress		85,543	90,514
Intangible assets		20,173	12,993
Other assets		1,167,556	1,036,841
Total assets		18,354,285	17,544,616
Liabilities			
Due to banks	11	720,990	617,079
Customer deposits	12	12,437,465	12,440,102
Term borrowings	11	1,061,726	1,153,551
Other liabilities		1,301,594	1,065,053
Total liabilities		15,521,775	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		(6,418)	3,396
Proposed dividends		-	110,000
Retained earnings		715,690	532,197
Tier 1 capital notes	14	500,000	-
Total shareholders' equity		2,832,510	2,268,831
Total liabilities and shareholders' equity		18,354,285	17,544,616

This condensed consolidated interim financial information was approved by the Board of Directors on 24 July 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 six month period ended 30 June 2013

	Note	Three month period ended 30 June 2013 AED'000	Three month period ended 30 June 2012 AED'000	Six month period ended 30 June 2013 AED'000	Six month period ended 30 June 2012 AED'000
Interest income		202,477	182,300	402,727	363,183
Interest expense		(64,867)	(65,900)	(136,235)	(128,033)
Net interest income		137,610	116,400	266,492	235,150
Net fees and commission income		50,943	46,312	100,525	87,921
Foreign exchange and derivatives income		15,151	14,076	33,918	26,647
Income from investments		3,420	(832)	4,617	986
Other operating income		2,388	1,369	3,650	4,039
Operating income		209,512	177,325	409,202	354,743
Operating expenses					
Employee benefits expense		(58,231)	(51,061)	(113,222)	(100,666)
Depreciation and amortization		(3,195)	(3,706)	(6,259)	(7,401)
Other operating expenses		(15,306)	(11,362)	(29,437)	(27,663)
Total operating expenses		(76,732)	(66,129)	(148,918)	(135,730)
Operating profit		132,780	111,196	260,284	219,013
Net impairment losses	8	(39,979)	(40,192)	(76,791)	(83,554)
Net profit for the period		92,801	71,004	183,493	135,459
Earnings per share (basic and diluted)	15	AED 0.08	AED 0.06	AED 0.17	AED 0.12

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 six month period ended 30 June 2013

	Three month period ended 30 June 2013 AED'000	Three month period ended 30 June 2012 AED'000	Six month period ended 30 June 2013 AED'000	Six month period ended 30 June 2012 AED'000
Net profit for the period	92,801	71,004	183,493	135,459
Other comprehensive income:				
<i>Changes in available-for-sale investments:</i>				
Net fair value gains on disposal of available-for-sale investments	(3,817)	(310)	(4,261)	(1,672)
Net changes in fair value of available-for-sale investments	(7,994)	2,392	(6,781)	6,614
Others	211	1,220	1,228	2,440
Net change in available-for-sale-investments	(11,600)	3,302	(9,814)	7,382
Total comprehensive income for the period	81,201	74,306	173,679	142,841

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 six month period ended 30 June 2013

Operating activities	Note	Six month period ended 30 June 2013 AED'000	Six month period ended 30 June 2012 AED'000
Net profit for the period		183,493	135,459
Adjustments for :			
Depreciation and amortization		6,259	7,401
Net impairment losses		76,791	83,554
Net fair value gains on disposal of investments		(4,418)	(1,625)
Net changes in fair value of investments at fair value through profit or loss		(199)	639
Operating profit before working capital changes		261,926	225,428
Change in statutory reserve with the UAE Central Bank		(153,308)	(66,662)
Change in due from banks		(50,000)	50,000
Change in loans and advances		(1,196,014)	(1,086,335)
Change in other assets		(130,715)	160,421
Change in due to banks		(31,908)	24,983
Change in customer deposits		(2,637)	978,215
Change in other liabilities		236,541	(147,854)
Net cash (used in) / generated from operating activities		(1,066,115)	138,196
Investing activities			
Purchase of property and equipment, intangible assets and capital work-in-progress		(8,468)	(10,849)
Purchase of investments		(387,133)	(272,126)
Proceeds from sale of investments		616,080	212,475
Net cash generated from / (used in) investing activities		220,479	(70,500)
Financing activities			
Change in term borrowings		(91,825)	-
Cash dividends		(110,000)	(110,000)
Proceeds from issue of Tier 1 capital notes		500,000	-
Net cash generated from / (used in) financing activities		298,175	(110,000)
Net change in cash and cash equivalents		(547,461)	(42,304)
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	1,931,612	1,722,438

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 six month period ended 30 June 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	-	-	-	135,459	7,382	-	-	142,841
2011 cash dividends paid	-	-	-	-	-	(110,000)	-	(110,000)
At 30 June 2012	1,100,000	283,539	178,539	533,009	(1,059)	-	-	2,094,028
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	-	-	-	183,493	(9,814)	-	-	173,679
Issue of Tier 1 capital notes (note 14)	-	-	-	-	-	-	500,000	500,000
2012 cash dividends paid	-	-	-	-	-	(110,000)	-	(110,000)
At 30 June 2013	1,100,000	314,119	209,119	715,690	(6,418)	-	500,000	2,832,510

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 six month period ended 30 June 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 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 Financial Services Centre (DIFC) as a company limited by shares under DIFC laws and regulations. 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; and
- NBF Trade Services (HKG) Limited is registered in Hong Kong as a company limited by shares under Hong Kong laws and regulations. The Company was established on 10 May 2013. The principal business activity of the company is the provision of trade finance services.

The condensed consolidated interim financial information for the six month period ended 30 June 2013 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 PSC

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

For the six month period ended 30 June 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.

The following applicable new standard has been issued but is not effective for the Group's accounting period beginning on 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 six month period ended 30 June 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 will consider the impact of the remaining phases of IFRS 9 when completed by the IASB and intends to adopt IFRS 9 no later than the accounting period beginning on 1 January 2015.

There are no other new standards and amendments to published standards or International Financial Reporting Interpretations Committee (IFRIC) interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2013 that would be expected to have a material impact on 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 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 six month period ended 30 June 2013 (continued)

6.	Cash and balances with the UAE Central Bank	30 June 2013 AED'000	31 December 2012 AED'000 Audited
	Cash on hand	114,279	100,480
	Certificates of deposit (CDs) with the UAE Central Bank	1,525,000	1,525,000
	Other balances with the UAE Central Bank (note 6.1)	967,250	781,507
		<u>2,606,529</u>	<u>2,406,987</u>
6.1	Other balances with the UAE Central Bank include regulatory cash reserve deposits of AED 551.4 million (31 December 2012: AED 398.1 million).		
7.	Due from banks and financial institutions	30 June 2013 AED'000	31 December 2012 AED'000 Audited
7.1	<i>By type</i>		
	Placements	434,842	921,067
	Current accounts	179,723	101,374
		<u>614,565</u>	<u>1,022,441</u>
7.2	<i>By geographical area</i>		
	Within UAE	346,031	662,246
	GCC countries	58,944	79,187
	Others	209,590	281,008
		<u>614,565</u>	<u>1,022,441</u>
7.3	<i>The currency wise analysis is set out below:</i>		
	AED	298,796	558,185
	USD	167,132	321,376
	EUR	19,219	49,501
	GBP	8,167	28,942
	XAU	45,692	4,684
	Others	75,559	59,753
		<u>614,565</u>	<u>1,022,441</u>

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the six month period ended 30 June 2013 (continued)

8. Loans and advances

	30 June 2013 AED'000	31 December 2012 AED'000 Audited
8.1 Loans and advances by type:		
Overdrafts	1,115,231	1,317,162
Term loans	8,850,420	8,110,586
Loans against trust receipts	2,203,619	1,852,710
Bills discounted	1,346,857	1,101,314
Bills drawn under letters of credit	659,336	604,920
	<u>14,175,463</u>	<u>12,986,692</u>
Allowance for impairment losses (note 8.2)	(860,232)	(790,684)
Net loans and advances	<u>13,315,231</u>	<u>12,196,008</u>

8.2 Allowance for impairment losses on loans and advances

	30 June 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	76,791	173,707
Written-off during the period / year	(7,243)	(35,241)
	<u>860,232</u>	<u>790,684</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 PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the six month period ended 30 June 2013 (continued)

9. Contingent liabilities and commitments (continued)

	30 June 2013 AED'000	31 December 2012 AED'000 Audited
Contingent liabilities:		
- Letters of credit covering movement of goods	1,344,488	1,175,298
- Financial guarantees and other direct credit substitutes	600,697	477,809
- Bid bonds, performance bonds and other transaction related contingencies	3,943,026	3,549,490
	<u>5,888,211</u>	<u>5,202,597</u>
Commitments:		
- Undrawn commitments – credit related	11,709,197	11,076,002
- Others	16,265	31,158
	<u>11,725,462</u>	<u>11,107,160</u>
	<u>17,613,673</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.

10. Investments

	30 June 2013 AED'000	31 December 2012 AED'000 Audited
Investments at fair value through profit or loss (FVPL) (note 10.1)	11,945	27,682
Available-for-sale (AFS)		
Debt securities (note 10.2)	430,820	409,835
Other investments	841	629
	<u>431,661</u>	<u>410,464</u>
Held-to-maturity (HTM)		
Debt securities (note 10.2)	101,082	340,686
	<u>544,688</u>	<u>778,832</u>

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the six month period ended 30 June 2013 (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 531.9 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. The debt securities portfolio includes floating rate securities amounting to **AED 233.9 million** (31 December 2012: AED 581.6 million).
- 10.3 The counterparty dispersion of the investment portfolio is set out below:

	30 June 2013 AED'000	31 December 2012 AED'000 Audited
Government	18,025	104,565
Banks and financial institutions	473,472	593,013
Others	53,191	81,254
	<u>544,688</u>	<u>778,832</u>

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

Within UAE	170,404	493,756
GCC Countries	-	14,909
Others	374,284	270,167
	<u>544,688</u>	<u>778,832</u>

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

AED	101,082	451,556
USD	358,359	215,973
EUR	57,204	111,303
GBP	28,043	-
	<u>544,688</u>	<u>778,832</u>

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the six month period ended 30 June 2013 (continued)

11. Due to banks and term borrowings

	30 June 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)	198,571	290,396
	<u>1,061,726</u>	<u>1,153,551</u>
Short-term borrowings	720,990	617,079
	<u>1,782,716</u>	<u>1,770,630</u>
<i>By geographical area:</i>		
Within UAE	456,068	353,135
GCC Countries	91,825	183,650
Others	1,234,823	1,233,845
	<u>1,782,716</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 arranged three term loan facilities through banks, amounting to **AED 290.4 million**, of which, one facility amounting to AED 91.8 million has been repaid during 2013. The facilities carry interest rate which is the aggregate of margin and LIBOR. As per the terms of the agreements of existing facilities, one facility extends to 1 year and the other 2 years after the disbursement date.

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial information – (Un-audited)
For the six month period ended 30 June 2013 (continued)

12. Customer deposits

	30 June 2013 AED'000	31 December 2012 AED'000 Audited
<i>By type:</i>		
Demand and margin deposits	3,354,374	2,749,291
Saving deposits	81,638	52,289
Fixed term and notice deposits	8,601,453	8,595,918
Subordinated debt (notes 12.1 & 12.2)	400,000	1,042,604
	<u>12,437,465</u>	<u>12,440,102</u>
<i>By geographical area:</i>		
Within UAE	11,827,230	11,833,520
Others	610,235	606,582
	<u>12,437,465</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 six month period ended 30 June 2013 (continued)

13. Shareholders' equity

Share capital	30 June 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 six month period ended 30 June 2013 is based on earnings of **AED 183.5 million** (30 June 2012: AED 135.5 million) divided by the weighted average number of shares of **1,100 million** (30 June 2012: 1,100 million shares) outstanding during the period.

The calculation of earnings per share for the three month period ended 30 June 2013 is based on earnings of **AED 92.8 million** (30 June 2012: AED 71.0 million) divided by the weighted average number of shares of **1,100 million** (30 June 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:

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Notes to the condensed consolidated interim financial information – (Un-audited)
For the six month period ended 30 June 2013 (continued)

16. Related parties (continued)

	30 June 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	900,718	791,762	971,587	907,729
Customer deposits	3,201,878	3,311,290	3,311,737	3,117,011
Investments	40,405	40,214	40,446	40,236
Letters of credit	98,045	84,749	47,313	59,109
Financial guarantees and other direct credit substitutes	9,088	9,003	9,727	15,142
Transaction related contingencies	107,038	103,023	101,889	112,588
Acceptances	69,886	63,522	76,649	54,581
Tier 1 capital notes	500,000	270,718	-	-
	30 June 2013 AED'000		30 June 2012 AED'000	
Statement of income items				
Interest income	17,256		20,101	
Interest expense	44,803		40,694	
Other income	5,862		4,743	
Key management compensation				
Salaries and other short-term benefits	8,626		6,693	
Employee terminal benefits	206		138	

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 900.7 million** (31 December 2012: AED 971.6 million) have been secured against collateral amounting to **AED 372.8 million** (31 December 2012: AED 149.7 million).

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

For the six month period ended 30 June 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.

	30 June 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	(6,418)	3,396
Subordinated facilities (notes 12.1 & 12.2)	400,000	914,083
Collective impairment provision	216,583	178,583
Total Tier 2	610,165	1,096,062
Deductions from Tier 1 and Tier 2 Capital		
Investments in unconsolidated subsidiaries	-	-
Total capital base (a)	<u>3,265,600</u>	<u>3,055,690</u>

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Notes to the condensed consolidated interim financial information – (Un-audited)
For the six month period ended 30 June 2013 (continued)

17. Capital adequacy ratio (continued)

	Risk weighted equivalent 30 June 2013 AED'000	Risk weighted equivalent 31 December 2012 AED'000
<i>Risk weighted assets</i>		
Credit risk	16,597,234	15,169,519
Market risk	2,363	3,628
Operational risk	821,706	728,918
Total risk weighted assets (b)	17,421,303	15,902,065
Capital adequacy ratio (a) / (b) - %	18.74	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:

	30 June 2013 AED'000	30 June 2012 AED'000
Cash on hand	114,279	81,014
Balances with the UAE Central Bank (note 18.1)	1,940,830	1,719,750
Due from banks with less than three months maturity	564,565	532,968
	-----	-----
	2,619,674	2,333,732
Due to banks with less than three months maturity	(688,062)	(611,294)
	-----	-----
	<u>1,931,612</u>	<u>1,722,438</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.

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

For the six month period ended 30 June 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:

Corporate and Institutional 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 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 transactions and relevant drivers.

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Notes to the condensed consolidated interim financial information – (Un-audited)
For the six month period ended 30 June 2013 (continued)

19. Segmental reporting (continued)

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

Six month period ended 30 June 2013	Corporate and Institutional banking	Retail banking	Treasury, ALM & others	Consolidated
	----- AED'000 -----			
Segment revenue	356,312	36,567	16,323	409,202
Segment operating cost	(114,577)	(28,493)	(5,848)	(148,918)
Net impairment losses	(77,565)	774	-	(76,791)
Net profit	164,170	8,848	10,475	183,493
30 June 2013				
Segment assets	13,284,014	1,112,981	3,957,290	18,354,285
Segment liabilities	12,300,573	1,246,159	1,975,043	15,521,775
Capital expenditure	-	-	8,468	8,468
Six month period ended 30 June 2012	Corporate and Institutional banking	Retail banking	Treasury, ALM & others	Consolidated
	----- AED'000 -----			
Segment revenue	307,958	23,305	23,480	354,743
Segment operating cost	(104,950)	(27,088)	(3,692)	(135,730)
Net impairment losses	(79,271)	(4,283)	-	(83,554)
Net profit / (loss)	123,737	(8,066)	19,788	135,459
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	-	-	26,082	26,082