

National Bank of Fujairah PSC
Condensed consolidated interim financial
statements – (Un-audited)
For the nine month period ended
30 September 2011

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For the nine month period ended 30 September 2011

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P O Box 3800
Level 32, Emirates Towers
Sheikh Zayed Road
Dubai
United Arab Emirates

Telephone +971 (4) 403 0300
Fax +971 (4) 330 1515
Website www.ae-kpmg.com

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 September 2011 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 cash flows and condensed consolidated interim statement of changes in equity for the nine 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 and for the period ended 30 September 2011 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG
Vijendranath Malhotra
Registration No. 48B

Dated: 23 October 2011

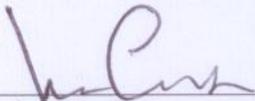
National Bank of Fujairah PSC

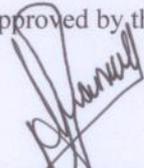
Condensed consolidated interim statement of financial position – (Un-audited)

As at 30 September 2011

	Notes	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
Assets			
Cash and balances with UAE Central Bank		2,004,165	2,202,366
Due from banks	6	340,147	192,976
Loans and advances	7	10,045,008	8,716,694
Investments	9	632,092	678,362
Property and equipment		83,383	86,229
Intangible assets		5,149	9,010
Capital work-in-progress		3,587	2,009
Other assets		987,878	1,028,967
Total assets		14,101,409	12,916,613
Liabilities			
Due to banks	10	869,814	446,457
Term borrowings	10	1,010,075	908,105
Customer deposits	11	9,278,087	8,657,591
Other liabilities		962,853	1,056,921
Total liabilities		12,120,829	11,069,074
Shareholders' equity			
Share capital	12	1,100,000	1,100,000
Statutory reserve		255,447	255,447
Special reserve		150,447	150,447
Available-for-sale revaluation reserve		(9,017)	(9,364)
Proposed dividends		-	68,200
Retained earnings		483,703	282,809
Total shareholders' equity		1,980,580	1,847,539
Total liabilities and shareholders' equity		14,101,409	12,916,613

These condensed consolidated interim financial statements were approved by the Board of Directors on 23 October 2011 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 nine month period ended 30 September 2011

	Notes	Nine month period ended 30 Sep 2011 AED'000	Nine month period ended 30 Sep 2010 AED'000	Three month period ended 30 Sep 2011 AED'000	Three month period ended 30 Sep 2010 AED'000
Interest income		497,466	453,946	174,402	155,043
Interest expense		(179,929)	(187,907)	(55,739)	(64,061)
Net interest income		317,537	266,039	118,663	90,982
Net fees and commission income		117,240	117,897	39,990	39,804
Foreign exchange and derivatives income		35,453	32,322	13,801	11,254
Other operating income		4,956	5,479	1,569	1,166
Operating income		475,186	421,737	174,023	143,206
Net impairment losses	8	(91,003)	(148,490)	(28,545)	(51,317)
Income from investments		4,343	12,735	774	8,850
Net operating income		388,526	285,982	146,252	100,739
Operating expenses					
Employee benefits expense		(135,027)	(110,741)	(50,653)	(38,427)
Depreciation and amortization		(12,225)	(12,124)	(4,123)	(4,004)
Other operating expenses		(40,380)	(32,342)	(15,805)	(10,498)
Total operating expenses		(187,632)	(155,207)	(70,581)	(52,929)
Profit for the period		200,894	130,775	75,671	47,810
Earnings per share (basic and diluted)	13	AED 0.18	AED 0.12	AED 0.07	AED 0.04

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 nine month period ended 30 September 2011

	Nine month period ended 30 Sep 2011 AED'000	Nine month period ended 30 Sep 2010 AED'000	Three month period ended 30 Sep 2011 AED'000	Three month period ended 30 Sep 2010 AED'000
Profit for the period	<u>200,894</u>	<u>130,775</u>	<u>75,671</u>	<u>47,810</u>
Other comprehensive income:				
<i>Changes in available-for-sale investments:</i>				
Amortisation of re-classified investments	3,661	3,661	1,233	1,234
Realised gains on sale of available-for-sale investments	(5,397)	(5,787)	(1,839)	(5,052)
Revaluation of available-for-sale investments	2,083	11,292	(4,114)	2,893
Net change in available-for-sale investments	<u>347</u>	<u>9,166</u>	<u>(4,720)</u>	<u>(925)</u>
Total comprehensive income for the period	<u><u>201,241</u></u>	<u><u>139,941</u></u>	<u><u>70,951</u></u>	<u><u>46,885</u></u>

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 nine month period ended 30 September 2011

Operating activities	Note	Nine month period ended 30 Sep 2011 AED'000	Nine month period ended 30 Sep 2010 AED'000
Profit for the period		200,894	130,775
Adjustments for :			
Depreciation and amortization		12,225	12,124
Gain on disposal of property and equipment		(16)	(12)
Net impairment losses		91,003	148,490
Realised gains on investments		(5,406)	(8,656)
Unrealised losses / gains on investments		1,063	(4,079)
		-----	-----
Operating profit before working capital changes		299,763	278,642
Change in due from banks		(50,000)	-
Change in loans and advances		(1,419,317)	(608,829)
Change in other assets		41,089	(224,390)
Change in due to banks		(50,354)	(27,086)
Change in customer deposits		620,496	165,086
Change in other liabilities		(94,068)	218,092
		-----	-----
Net cash used in operating activities		(652,391)	(198,485)
Investing activities			
Purchase of property and equipment and capital work-in-progress		(7,096)	(4,580)
Proceeds from sale of property and equipment		16	12
Purchase of investments		(529,298)	(383,611)
Proceeds from sale of investments		580,258	472,372
		-----	-----
Net cash from investing activities		43,880	84,193
Financing activities			
Change in term borrowings		101,970	(3,595)
Cash dividends		(68,200)	-
		-----	-----
Net cash generated from / (used in) financing activities		33,770	(3,595)
		-----	-----
Net change in cash and cash equivalents		(574,741)	(117,887)
Cash and cash equivalents at beginning of the period		2,006,820	2,287,075
Cash and cash equivalents at end of the period	16	<u>1,432,079</u>	<u>2,169,188</u>

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 nine month period ended 30 September 2011

	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	Total AED'000
At 1 January 2010	1,100,000	238,360	133,360	214,312	(17,508)	-	1,668,524
Total comprehensive income for the period	-	-	-	130,775	9,166	-	139,941
At 30 Sep 2010	<u>1,100,000</u>	<u>238,360</u>	<u>133,360</u>	<u>345,087</u>	<u>(8,342)</u>	<u>-</u>	<u>1,808,465</u>
At 1 January 2011	1,100,000	255,447	150,447	282,809	(9,364)	68,200	1,847,539
Total comprehensive income for the period	-	-	-	200,894	347	-	201,241
2010 cash dividends paid	-	-	-	-	-	(68,200)	(68,200)
At 30 Sep 2011	<u>1,100,000</u>	<u>255,447</u>	<u>150,447</u>	<u>483,703</u>	<u>(9,017)</u>	<u>-</u>	<u>1,980,580</u>

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 nine month period ended 30 September 2011

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 thirteen branches in Fujairah, Abu Dhabi, Dubai, Sharjah, Dibba, Jebel Ali, Musaffah, Masafi, Qidfah, Deira, Ajman, Tawian and Al-Ain.

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 statements for the nine month period ended 30 September 2011 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 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 consolidated 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 2010.

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 2010. However, the Group has adopted IAS 24 'Related Party Disclosures' (Revised) which became applicable for annual periods beginning on or after 1 January 2011, in the preparation of these condensed consolidated interim financial statements. IAS 24 amends the definition of a related party and modifies certain related party disclosure requirements for government related entities. The revised requirements under IAS 24 affect the presentation and disclosure of these condensed consolidated interim financial statements and do not have any effect on the reported amounts in the condensed consolidated interim statement of financial position and condensed consolidated interim statement of comprehensive income.

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 2010.

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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 2010.

6. Due from banks	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
<i>By geographical area</i>		
Within UAE	272,237	56,988
GCC countries	3,469	61,903
Others	64,441	74,085
	<u>340,147</u>	<u>192,976</u>

6.1 The currency wise analysis is set out below:

	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
AED	227,012	32,637
USD	32,710	29,867
EURO	58,267	93,790
GBP	2,558	4,822
Others	19,600	31,860
	<u>340,147</u>	<u>192,976</u>

7. Loans and advances

7.1 Loans and advances by type:	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
Overdrafts	1,200,414	1,281,624
Term loans	6,638,474	5,635,922
Loans against trust receipts	1,571,987	1,130,484
Bills discounted	677,497	805,877
Bills drawn under letters of credit	624,742	520,852
	<u>10,713,114</u>	<u>9,374,759</u>
Allowance for impairment losses (note 8)	(668,106)	(658,065)
Net loans and advances	<u>10,045,008</u>	<u>8,716,694</u>

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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 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
Contingent liabilities:		
- Letters of credit covering movement of goods	1,043,288	1,181,675
- Financial guarantees and other direct credit substitutes	380,393	331,695
- Bid bonds, performance bonds and other transaction related contingencies	3,397,920	3,505,655
	<u>4,821,601</u>	<u>5,019,025</u>
Commitments and others:		
- Undrawn commitments - credit related	9,041,082	7,633,211
- Others	20,650	14,475

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 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
Movement in allowances for impairment losses		
Balance at 1 January	658,065	479,222
Provided during the period / year	112,401	238,955
Released during the period / year	(21,398)	(33,910)
Net allowance for impairment losses	91,003	205,045
Written-off during the period / year	(80,962)	(26,202)
	<u>668,106</u>	<u>658,065</u>

National Bank of Fujairah PSC

Notes (continued)

9. Investments

	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
Investments at fair value through profit or loss (FVPL) (note 9.1)	39,714	41,621
Available for sale (AFS)		
Debt securities (note 9.2)	246,285	347,573
Other investments	546	690
	<u>246,831</u>	<u>348,263</u>
Held to maturity (HTM)		
Debt securities (note 9.2)	345,547	288,478
	<u>632,092</u>	<u>678,362</u>

9.1 This includes various international funds and funds with no fixed maturities. The fair values of these investments are based on the net asset values provided by the fund managers. These also comprise investments in private equity and funds invested in an insurance bond previously maintained in a discretionary trust.

9.2 **Debt securities** represent the Group's investments in bonds and notes. These include floating rate securities amounting to **AED 520 million** (31 Dec 2010: AED 585 million). These securities are quoted on internationally recognised platforms of Reuter and Bloomberg and are liquid in normal market conditions.

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

	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
Government	87,973	87,010
Banks and financial institutions	434,188	433,102
Others	109,931	158,250
	<u>632,092</u>	<u>678,362</u>

National Bank of Fujairah PSC

Notes (continued)

9. Investments (continued)

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

	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
Within UAE	467,012	528,929
GCC Countries	21,741	57,360
Others	143,339	92,073
	<u>632,092</u>	<u>678,362</u>

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

	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
AED	447,087	485,079
USD	92,296	142,833
EURO	73,330	33,622
GBP	19,379	16,828
	<u>632,092</u>	<u>678,362</u>

10. Due to banks and term borrowings

	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
<i>By type:</i>		
Club term loan facility (note 10.1)	863,155	-
Syndicated borrowing (note 10.2)	-	761,185
Bilateral borrowings (note 10.3)	146,920	146,920
	<u>1,010,075</u>	<u>908,105</u>
Short-term borrowings	869,814	446,457
	<u>1,879,889</u>	<u>1,354,562</u>
<i>By geographical area:</i>		
Within UAE	473,600	98,258
GCC Countries	2	2
Others	1,406,287	1,256,302
	<u>1,879,889</u>	<u>1,354,562</u>

10.1 On 24 June 2011, the Group arranged a club term loan facility of **AED 863.2 million** (US\$ 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 24 June 2013.

National Bank of Fujairah PSC

Notes (continued)

10. Due to banks and term borrowings (continued)

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 US\$ 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.

- 10.2 The proceeds of the Club term loan facility were utilized to settle the syndicated term loan facility comprising of US\$ 190 million and Euro 13 million arranged on 31 July 2008.
- 10.3 During 2010, the Group arranged term loan facilities through banks amounting to **AED 146.9 million**. The facilities carry floating rate which is the aggregate of Margin and LIBOR. As per the terms of the agreements, the tenure of the facilities extends to 2 years after the disbursement date.

11. Customer deposits

	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
<i>By type</i>		
Demand and margin deposits	1,859,412	1,680,503
Saving deposits	35,952	38,103
Fixed term and notice deposits (note 11.1 & 11.2)	7,382,723	6,938,985
	<u>9,278,087</u>	<u>8,657,591</u>
<i>By geographical area</i>		
Within UAE	8,819,627	8,144,332
Others	458,460	513,259
	<u>9,278,087</u>	<u>8,657,591</u>

- 11.1 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 quarterly.
- 11.2 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 Central Bank has approved the facility to be considered as Tier 2 capital for regulatory purposes.

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Notes (continued)

12. Shareholders' equity

Share capital

	30 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
Authorised, issued and fully paid:		
1,100,000,000 shares of AED 1 each	<u>1,100,000</u>	<u>1,100,000</u>
(2010: 1,100,000,000 shares of AED 1 each)		

13. Earnings per share

The calculation of earnings per share for the nine month period ended 30 Sep 2011 is based on earnings of **AED 200,894 thousand** (30 Sep 2010: AED 130,775 thousand) divided by the weighted average number of shares of **1,100,000 thousand** (30 Sep 2010: 1,100,000 thousand shares) outstanding during the period.

The calculation of earnings per share for the three month period ended 30 Sep 2011 is based on earnings of **AED 75,671 thousand** (30 Sep 2010: AED 47,810 thousand) divided by the weighted average number of shares of **1,100,000 thousand** (30 Sep 2010: 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 these condensed consolidated interim financial statements are as follows:

	30 September 2011 AED'000	Average balances during 2011 AED'000	31 December 2010 AED'000 Audited	Average balances during 2010 AED'000 Audited
Statement of financial position items				
Loans and advances	430,478	507,863	463,903	385,759
Customer deposits	2,304,076	2,153,273	1,923,423	1,890,388
Letters of credit	54,307	72,985	76,037	139,085
Financial guarantees and other direct credit substitutes	16,717	16,854	18,601	19,349
Transaction related contingencies	118,862	130,178	132,093	120,072
	30 Sep 2011 AED'000		30 Sep 2010 AED'000	
Statement of income items				
Interest income	21,049		18,493	
Interest expense	51,219		49,604	
Other income	5,065		3,742	

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Notes (continued)

14. Related parties (continued)

	30 Sep 2011 AED'000	30 Sep 2010 AED'000
Key management compensation		
Salaries and other short-term benefits	10,780	9,242
Employee terminal and other long-term benefits	231	219

No provisions for impairment have been recognized in respect of loans given to related parties (31 December 2010: Nil).

The loans given to related parties amounting to **AED 430.478 million** (31 December 2010: AED 463.903 million) have been secured against collateral amounting to **AED 76.5 million** (31 December 2010: AED 76.573 million).

15. Capital adequacy ratio

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

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

- Tier 1 capital, which includes ordinary share capital and retained earnings (excluding current year's 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 Sep 2011 AED'000	31 Dec 2010 AED'000 Audited
Tier 1 Capital		
Share capital	1,100,000	1,100,000
Statutory reserve	255,447	238,360
Special reserve	150,447	133,360
Retained earnings	282,809	214,312
Total Tier 1	1,788,703	1,686,032
Tier 2 Capital		
Available-for-sale revaluation reserve	(9,017)	(9,364)
Subordinated facilities (note 11.1 & 11.2)	894,352	843,016
Collective impairment provision	170,456	137,482
Total Tier 2	1,055,791	971,134

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Notes (continued)

15. Capital adequacy ratio (continued)

Deductions from Tier 1 and Tier 2 Capital		
Investments in unconsolidated subsidiaries	-	-
Total capital base (a)	<u>2,844,494</u>	<u>2,657,166</u>
<i>Risk weighted assets</i>		
	30 Sep 2011	31 Dec 2010
	Risk	Risk
	weighted	weighted
	equivalent	equivalent
	AED'000	AED' 000
		Audited
Credit risk	13,049,166	11,768,098
Market risk	13,836	5,166
Operational risk	573,503	646,334
Total risk weighted assets (b)	13,636,505	12,419,598
Capital adequacy ratio (a) / (b) - %	20.86	21.39

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:

	30 Sep 2011	30 Sep 2010
	AED'000	AED'000
Cash on hand	74,298	57,325
Balances with Central Bank of UAE	1,929,867	2,317,615
Due from banks with less than three months maturity	290,147	272,922
	<u>2,294,312</u>	<u>2,647,862</u>
Due to banks with less than three months maturity	<u>(862,233)</u>	<u>(478,674)</u>
	<u>1,432,079</u>	<u>2,169,188</u>

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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, 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 and Internal Audit. The shared services cost is allocated to business segments based on transaction and relevant drivers.

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Notes (continued)

17. Segmental reporting (continued)

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

Nine month period ended 30 September 2011	Wholesale banking	Consumer banking	Treasury, ALM & others	Consolidated
	AED'000			
Segment revenue	421,667	46,643	11,219	479,529
Segment operating cost	(119,226)	(62,277)	(6,129)	(187,632)
Net impairment losses	(87,687)	(3,316)	-	(91,003)
Net profit / (loss)	214,754	(18,950)	5,090	200,894
30 September 2011				
Segment assets	10,393,525	601,841	3,106,043	14,101,409
Segment liabilities	8,892,126	538,839	2,689,864	12,120,829
Capital expenditure			5,518	5,518
Nine month period ended 30 September 2010	Wholesale banking	Consumer banking	Treasury, ALM & others	Consolidated
	AED'000			
Segment revenue	369,477	43,307	21,688	434,472
Segment operating cost	(99,002)	(51,847)	(4,358)	(155,207)
Net impairment losses	(130,346)	(18,144)	-	(148,490)
Net profit / (loss)	140,129	(26,684)	17,330	130,775
31 December 2010				
Segment assets	9,147,411	588,236	3,180,966	12,916,613
Segment liabilities	8,474,948	391,931	2,202,195	11,069,074
Capital expenditure			6,730	6,730

18. Comparative figures

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