2014
ANNUAL REPORT

بنك الفجيرة الوطني
National Bank of Fujairah

His Highness Sheikh Khalifa Bin Zayed Al Nahyan

President of the UAE and Ruler of Abu Dhabi

His Highness Sheikh Mohammed Bin Rashid Al Maktoum

Vice President and Prime Minister of the UAE and Ruler of Dubai

His Highness Sheikh Hamad Bin Mohammed Al Sharqi

Member of the Supreme Council and Ruler of Fujairah

2014
ANNUAL REPORT

Fujairah Fort is a celebrated landmark that has stood firm throughout the centuries in the scenic mountains of our home emirate.

The Bank for Business in the UAE, the Pride of Fujairah

Incorporated in 1982, the National Bank of Fujairah has a long established reputation for excellence in the areas of corporate and commercial banking, trade finance and treasury. More recently, we have expanded our range of products to include a comprehensive suite of personal banking options and shariah compliant services.

NBF's commitment to the economic development of the UAE and home emirate of Fujairah is evident through our support of industries ranging from oil and shipping to services, manufacturing, construction, education and healthcare.

With our solid track record, strong cultural heritage, deep market insight and unwavering focus on service and innovation, we seek to develop lasting relationships with our customers as we help them leverage growth opportunities in the ever-changing marketplace.

As a bank born and bred in the UAE, we at NBF celebrate our cultural heritage by playing a proactive role in the development of the local community.

We believe in cultivating rewarding relationships with our customers by providing them with the very best in financial services, innovation and service delivery.

Similarly, we continuously strive towards the creation of a stimulating environment that allows our people to pursue their own personal and professional development.

This year, we pay homage to our nation's rich heritage with creative references to key cultural elements of the UAE throughout our 2014 Annual Report.

Our Network

Head Office

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PO Box 887, Fujairah
Tel +971 9 222 4518
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Branch Locations

Fujairah

Fujairah

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Fax +971 9 244 3785

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Fax +971 9 256 3339

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Fax +971 9 236 0494

Tawian

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Dubai

Bur Dubai

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Khalid Bin Waleed Street
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Fish round about
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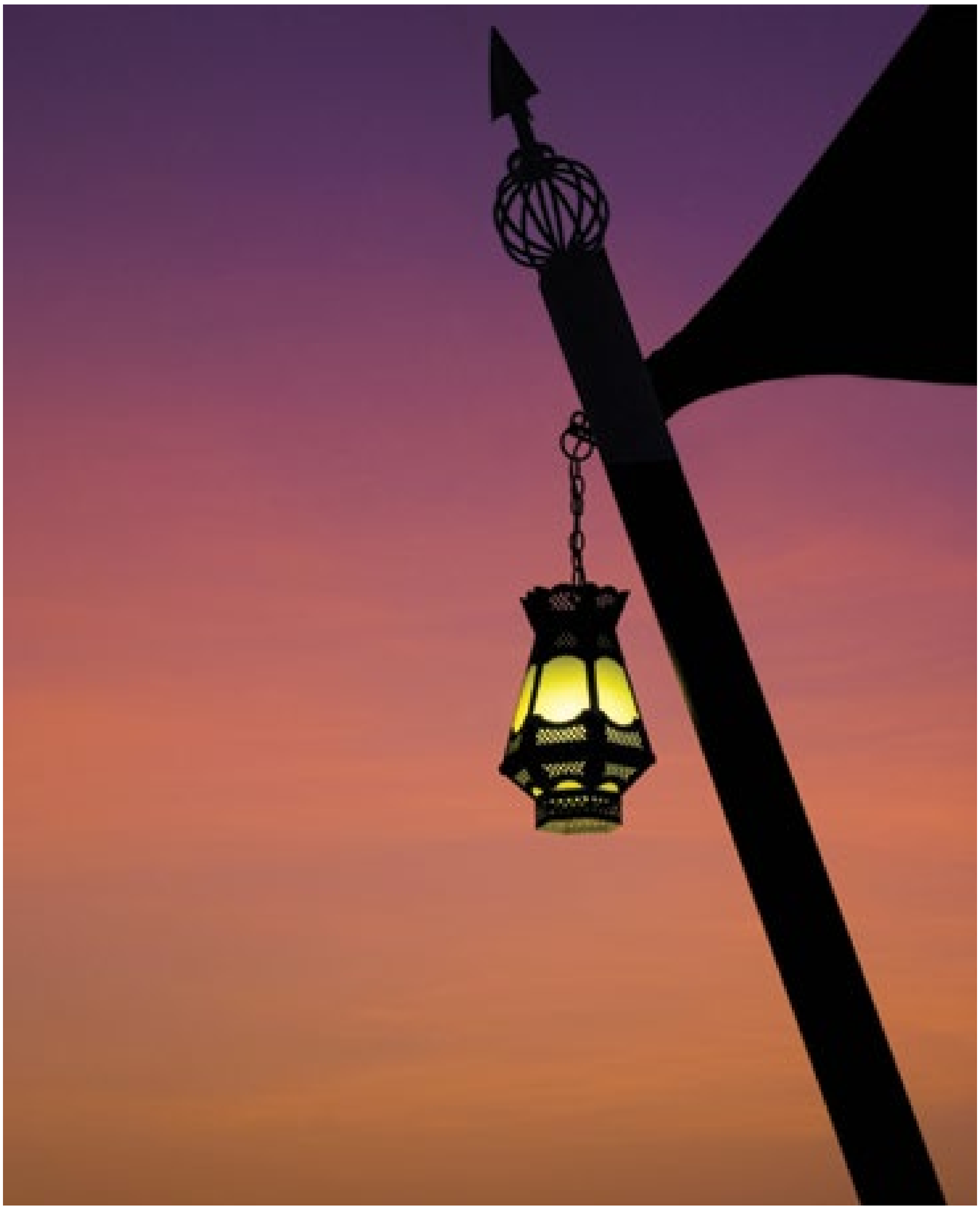


A symbol of the Holy Month of Ramadan, the lantern is used to light up desert campsites on moonless nights.

Chairman's Report

On behalf of the Board of Directors, I am delighted to present the Annual Report of National Bank of Fujairah PJSC and its subsidiaries for the year ended 31 December 2014.

Highest-ever net profit in NBF's history achieved through a disciplined focus on core business, exceptional service, rigorous governance and prudent risk management

The bank set a new benchmark for excellence in 2014 when operating income surged past AED 1 billion in 2014 – an all-time high in NBF's 30-year operating history. Net profit also crossed the half billion dirham mark for the first time at AED 505.4 million, constituting the bank's best financial performance to date. With this remarkable set of results, we have not only outperformed the industry average for a fifth consecutive year, but further established NBF as one of the leading banks for business in the UAE and a source of pride for Fujairah.

Buoyed by strong growth in core business and improvement in credit losses, NBF's 2014 net profit saw a solid growth of 28.6% from AED 393.1 million in 2013 to AED 505.4 million, improving the bank's return on average assets to 2.2% from 2.0%. During the year, the bank pushed ahead with its strategy of developing new lines of business and enhancing its operating platform to better serve customers and deliver value to stakeholders. Whilst this resulted in an increase in the cost to income ratio from 36.6% to 37.8%, we expect it to normalize in the years ahead as these investments bear fruit. NBF's provision coverage is now one of the best amongst local banks, improving from 118.4% in 2013 to 121.4% a year later.

The bank also maintained strong capital adequacy and liquidity levels. This strength is underpinned by a sustained focus on quality with Tier 1 capital representing 83.2% of the bank's capital base and 94.2% of liquid assets being maintained with the UAE Central Bank.

During the year the bank successfully launched 'NBF Islamic', a standalone window focused on meeting the financial needs of our customers that have a preference for sharia compliant services. The bank also established an equipment finance unit to better service the supply chain requirements of its corporate clients. In its first full year of operations, NBF Capital was mandated a number of advisory projects, worth more than AED 2.0 billion, exceeding our target for both transactions and profitability.

An ongoing commitment towards improving processes and operating systems has seen the bank investing in solutions such as customer relationship management, vendor management and retail credit systems for enhanced productivity and service excellence. Its channels infrastructure was also enhanced with the introduction of a new branch in Al Quoz and the addition of new functionalities to the NBF Direct online banking service, where customers can now utilize its extensive suite of transactional and real-time reporting applications to fulfil their personal or business banking needs.

Stakeholder engagement, corporate governance and market recognition

NBF also took great strides in engaging key stakeholders and the broader market so as to better align its development with that of the local community. To that end, the bank enhanced its disclosures, updated its Memorandum and Articles of Association and arranged meetings with minority shareholders to apprise them of NBF's progress, resulting in the Hawkamah Institute of Corporate Governance acknowledging the bank's efforts to uphold the highest standards of transparency and governance.

Chairman's Report (continued)

Over the course of the year, two new members were elected to NBF's Board of Directors as part of the bank's succession planning. The bank's sound fundamentals were further reaffirmed with its debut investment grade ratings from Moody's and Standard & Poor's.

The bank's customer focus is renowned in the market and, for the third consecutive year, won "Best Domestic Commercial Bank" at the Banker Middle East (BME) Industry Awards. At the BME Product Awards, a sister event that also celebrates excellence in banking products and services, NBF received plaudits for "Best Treasury Management" (three years in a row), "Best SME Trade Finance Offering" (two years in a row) and "Best Customer Service - Corporate & Investment Banking" for the first time in 2014, further reaffirming the high regard that customers and the market alike have for the bank.

Shareholders' returns

The bank has taken pride in its ability to consistently deliver value to its shareholders, and this year is no exception. The return on average equity has improved to 15.8% from 14.8%. The book value per share has improved 13.2% to AED 2.6 from AED 2.3 and earnings per share improved 25.3% from AED 0.34 to AED 0.43. Taking into account our record-breaking performance, I, on behalf of the Board of Directors, am pleased to recommend a 20% increase in dividend distribution and propose a distribution of profits of 15% (2013: 12.5%) in the form of cash dividends of 7.5% (2013: 12.5%) and bonus shares of 7.5% (2013: nil) of paid-up capital.

Committed to the success of the UAE and the emirate of Fujairah

As NBF progresses towards its vision of becoming the business partner of choice for the UAE, we will continue to maintain a staunch focus on providing the best service and the utmost support to our clients.

We also aspire to play an ongoing role in the economic development of the UAE. One of the most politically stable countries and the second largest economy in the Middle East, the UAE maintains a competitive edge not just by being the world's eighth largest oil producer but through an active diversification of its free-market economy into transport, tourism, trade and financial services. Its infrastructure is state-of-the-art and the recent announcement of plans to transform the emirate of Dubai into a "Smart City" will no doubt usher into the UAE a new period of transformation-and a new era of economic progress.

The country's upgrade by Morgan Stanley Capital International (MSCI) to emerging market status, its rise as an Islamic banking hub, the positive spin-offs from Expo 2020 and non-hydrocarbon growth will also contribute to the UAE growth story.

As for the bank's home emirate of Fujairah, its strategic position along global shipping lanes is crucial to its success as the second largest bunkering port in the world, with analysts attributing the 40 per cent growth in foreign trade in the UAE in 2014 largely to the emirate's advantageous location along the Indian Ocean. With the Federal Government's proclamation of 2015 as the "Year of Innovation" at Fujairah's historic fort, the future certainly looks promising indeed. NBF is well-positioned to tap the exciting opportunities arising from Fujairah and the UAE for further success.

The bank remains committed to supporting the growth of the UAE economy under the visionary and dynamic leadership of our President, His Highness Sheikh Khalifa Bin Zayed Al Nahyan, and our Vice President and

Chairman's Report (continued)

Prime Minister of the UAE and Ruler of Dubai, His Highness Sheikh Mohammed Bin Rashid Al Maktoum.

I would like to extend my gratitude to His Highness Sheikh Hamad Bin Mohammed Al Sharqi, member of the Supreme Council and Ruler of Fujairah, for his steadfast support and for being an inspiration to the bank.

I would also like to thank my fellow directors and our great people within the bank for their ongoing commitment and hard work.

Finally, I would like to express my gratitude to the bank's customers and shareholders for their unwavering support over the course of NBF's remarkable journey.

Saleh Bin Mohamed Bin Hamad Al Sharqi

Directors' Report

The building of traditional dhows (boats) became a functional art form, opening up a new era of trade for the UAE as the fishing, pearl and spice trade industries flourished.

Directors' Report

Financial Results

The Group

NBF's record performance underscores its focus on long term sustainable results, delivering the highest level of customer service and strong execution of its business strategy. As NBF progresses towards becoming the UAE's bank for business and the pride of Fujairah, customer support and offering wide a range of market-leading products will continue to be instrumental to our ongoing success.

The bank achieved its highest-ever net profit in 2014 at AED 505.4 million, 28.6 per cent higher than the AED 393.1 million achieved in 2013. Operating profit was AED 637.8 million in 2014, up 13.8 per cent from AED 560.7 million in the previous year.

Operating income grew by 15.9 per cent to AED 1,025.2 million, compared to AED 884.7 million in 2013, reflecting growth in the underlying volume of business and our ability to maintain margins. Net interest income grew by 17.0 per cent to AED 681.1 million, compared to AED 582.0 million in 2013 due to robust asset and liability management. Non-interest income rose to AED 344.1 million, 13.7 per cent higher than the AED 302.6 million in 2013, primarily reflecting an increase in the bank's trade business and credit growth. Exchange income, including derivatives income, grew by 12.9 per cent to AED 70.8 million. A gain in investment income of AED 5.1 million was also recorded in 2014, compared to AED 6.5 million for the corresponding period in 2013.

Operating expenses increased by 19.6 per cent to AED 387.4 million and the cost-to-income ratio stood at 37.8 per cent, up from 36.6 per cent in 2013. The cost-to-income ratio increase reflects the bank's focus on establishing new growth initiatives and enhancing the robustness of its operating platform to better serve customers and deliver greater value to stakeholders. During the year, NBF established new lines of business such as Islamic banking, and equipment finance, in addition to implementing a number of new systems and processes. We expect the cost-to-income ratio to return to lower levels in the years ahead as these investments bear fruit. Meanwhile, the return on average equity was 15.8 per cent, compared to 14.8 per cent in 2013, and return on average assets was 2.2 per cent, up from 2.0 percent in 2013.

Loan loss charges for the year fell to AED 132.4 million from AED 167.6 million in 2013, showing a marked improvement in the quality of the credit portfolio. NBF's non-performing loans and advances (NPL) ratio decreased to 4.4 per cent from 4.7 per cent in 2013. This improvement was the result of a strong remedial management effort. During the year, recoveries from NPLs amounted to AED 92.5 million, compared to AED 102 million in 2013, and write-offs amounted to AED 36.4 million, down from AED 144.5 million the previous year. Total provision coverage improved to 121.4 per cent in 2014, up from 118.4 per cent in 2013, while specific provision coverage improved to 56.6 per cent from 55.8 per cent over the same period. Taking into account the benefit of eligible collaterals, the specific provision coverage is 69.1 per cent, rising from 68.8 per cent in 2013.

The Group remains disciplined in its focus on maintaining a strong balance sheet, which continues to be highly liquid, well diversified, and conservatively positioned. Growth has also been robust on both sides of the balance sheet and we continue to focus on the principle of 'funding before lending'. The Group is predominantly deposit funded and our lending to stable resources ratio rose to 87.0 per cent, up from 84.3 per cent in 2013.

Growth in lending and deposits of 17.8 per cent and 19.6 per cent respectively in 2014 reflects the strength of the bank's customer relationships and its commitment to supporting the ongoing development of the UAE. Further indicative of the success of this strategy, total assets grew 14.6 per cent to AED 24.6 billion during this period, up from AED 21.5 billion at the end of 2013.

Directors' Report (continued)

The bank has also maintained strong capital adequacy and liquidity levels relative to its risk profile and growth strategy. Liquidity levels remained healthy, with our liquid assets ratio reaching 20.3 per cent at the year end, compared to 22.0 per cent in 2013. A focus on quality has also underpinned the strength of our capital adequacy and liquidity. NBF's Tier 1 capital represented 83.2 per cent of the bank's capital base, and 94.2 per cent of liquid assets were maintained with the UAE Central Bank.

Segment Performance

NBF's long-standing dedication to relationship management and delivering the highest level of customer experience is evident throughout the industry, and was also recognised at the Banker Middle East (BME) Industry Awards, where the bank received the accolade for Best Customer Service – Corporate & Investment Banking. Looking ahead, our strategy will continue to revolve around client relationships, which is reflected in the segmented approach adopted by the bank to serve its customer needs, and maintain a dedicated focus on providing specialised advice. We believe that we have scope to deepen our client relationships further by achieving industry leading service standards, while offering innovative and customised products and solutions. To this end, a dedicated product and channels team continues to work hand-in-hand with the individual business segments to enhance customer experience.

Corporate and Institutional Banking

The operating income from corporate and institutional banking customers for the year was AED 865.3 million (2013: AED 763.6 million). This includes foreign exchange, derivative and advisory income earned from these customers, which are reported under Treasury, Asset and Liability Management (ALM) and Others segment.

Corporate and Institutional segments

NBF's corporate and institutional banking segments represent 52.3 per cent of the bank's operating income, compared to 56.8 per cent in 2013. The segment's operating income increased to AED 536.0 million from AED 502.6 million in 2013. Additionally, assets reached AED 14.1 billion, rising 17.7 per cent from AED 12.0 billion in 2013, while liabilities increased by 21.3 per cent to AED 16.7 billion compared to AED 13.7 billion in 2013. In line with the bank's strategy of diversifying its sources of business and risks, a number of new initiatives were undertaken last year:

- A sharper focus on the service and manufacturing segment contributed to strong income growth of 19.6%.
- An equipment finance business was established to better meet the supply chain requirements of the bank's corporate clients. The segment commenced operations in the second half of the year, and has already built a strong pipeline of business worth AED 377 million.
- The bank boasts a reputation as the leading local bank trading in the gold bullion market, and is also focused on expanding its expertise in the diamond space.
- The bank has established the capability to provide a suite of Sharia compliant corporate and trade finance products that will be available for customers in 2015.

Directors' Report (continued)

Business Banking segment

NBF won the "Best Domestic Commercial Bank" award for the third time in a row at the Banker Middle East Industry Awards (BME) 2014, testament to the team's strong customer relationships and leadership in the business banking space. Similarly, the bank was also recognised at the BME Product Awards, where it swept the 'Best SME Trade Finance Offering' accolade for a second year running. Such awards reaffirm the strong client focus and business partnerships the bank has cultivated over the years. NBF's business banking segment is closely aligned with a significant part of the UAE economy and represents a rapidly growing component of the bank's revenue pool. To build on this, we have implemented a strategy that enables us grow our market position through a dedicated focus on service and resource allocation.

The business banking segment represents 24.2 per cent of the bank's operating income, rising from 23.4 per cent in 2013, which equates to AED 248 million, up 20 per cent from AED 206.7 million in 2013. The segment's assets totaled AED 2.8 billion in 2014, rising 26.2 per cent compared to AED 2.2 billion in 2013, while the segment's liabilities rose to AED 2.1 billion from AED 1.9 billion in 2013.

Retail Banking

2014 saw good progress in the expansion of the bank's retail business across the UAE resulting in a bigger contribution to the overall results, reflecting the success of NBF's diversified business strategy. An enhanced sales focus aimed at building a strong business has helped improve service and coverage, in addition to managing the impact of the interest spread in a low interest rate environment. In response to increasing customer demand, Sharia compliant retail banking products and services were launched in October 2014.

The segment's assets grew by 29.2 per cent to AED 1.6 billion and liabilities went up by 23.9 per cent to AED 1.2 billion in 2014. Operating income grew by 12.3 per cent to AED 72.4 million, while costs increased by 16.0 per cent to AED 78.0 million in 2014. The rise in costs represented the investment in the bank's sales infrastructure and the development of its Islamic product suite, which will further contribute to the segment's planned revenue growth.

Treasury, Asset and Liability Management (ALM) and Others

Our award-winning treasury business continues to be well regarded in the market and offers a wide range of products to customers across diverse segments. Voted "Best Treasury Management" three years running at the Banker Middle East Product Awards, the business saw a growth in foreign exchange and derivatives income of 12.9 per cent to AED 70.8 million, compared to AED 62.7 million in 2013. Sophisticated derivative transactions undertaken by the bank also highlighted the technical competence of NBF's treasury and its ability to offer wide range of products in the market to help customers manage their financial risks. The implementation of a new treasury front end system is also in progress, which will broaden the spectrum of products offered, along with allowing greater efficiency and control to the business teams.

NBF's enhanced focus on asset and liability management during the year also resulted in strong net interest growth of 17 per cent, and the combined share of the bank's income from Treasury and ALM improved to 16.5% from 12.5% in 2013.

The figures reported for this segment also include the results of NBF's subsidiaries. NBF Capital Limited, a DIFC-based advisory business, commenced operations in May 2013, becoming profitable in its first full year of operations. During this period, NBF Capital closed mandates exceeding AED 2.0 billion and recorded an operating income of AED 16.2 million.

Directors' Report (continued)

Customer Focus

Meeting customer demand and providing exceptional service is at the centre of the bank's operating philosophy.

NBF has successfully implemented a new customer relationship management (CRM) system to provide a holistic overview of its customers across the bank that will enable it to serve their needs in a more cohesive and efficient manner.

The bank also established a customer service quality group to continually ensure its core processes are of the highest standard. This team encourages staff to provide suggestions to improve the customer service experience and has been at the forefront of driving a number of important process and automation changes.

The branch network has grown to 15 and new branches have also been planned for 2015. The NBF Direct internet banking service has been expanded to provide additional functionalities with almost 40 per cent of customer payments and transfers now facilitated through this platform. The bank has also implemented an interactive voice recording system in multiple languages to provide a better banking experience for its customers.

NBF's customer satisfaction survey, conducted annually with the help of an independent research consultancy, continues to reaffirm the bank's strong focus on service quality. Its fourth and latest survey is no exception; not only is NBF performing more favourably than banks from its peer group, the bank's service levels are increasingly compared to the larger local and multinational financial institutions - a comparison that is not only a consistent source of pride but a source of motivation for us to do more in support of our clients. Noticeable improvements in satisfaction levels in areas from the bank's emerging suite of personal banking services to its online banking portal, NBF Direct, also show that the bank's investment in new businesses and infrastructure are bearing fruit.

Operational Highlights

NBF's record financial performance has been underpinned by strong operational achievements.

As part of the bank's ongoing focus on enhancing productivity, a number of processes have been automated and re-organised to improve processing time for customer transactions, optimise resources and improve overall efficiency. In particular, the bank has now automated both its corporate credit and retail lending processes, from origination to disbursement, with a view to improving the quality of credit decisions and processing time for customers. NBF's vendor management, fixed assets administration and reconciliation processes have also been automated end to end.

The bank established a data governance committee to better respond to its growing business intelligence needs and at the same time address the guidelines set out by the Basel Committee on Banking Supervision in its principles for effective data aggregation and reporting. Its main responsibility is to define NBF's data organisational structure and governance framework in order to help the bank leverage information more effectively for making decisions and reporting.

The bank is confident that its focus on process enhancement and investment in automation will be instrumental in enhancing service standards and the overall satisfaction of its customers and other key stakeholders.

Directors' Report (continued)

Corporate Governance

Corporate governance underpinned by transparency and fair business practices lies at the heart of everything we do, and are a key pre-requisite for good quality earnings, consistent results and shareholder confidence. NBF also took great strides in engaging key stakeholders and improved disclosures so as to better align its development with that of the local community. This resulted in the Hawkamah Institute of Corporate Governance acknowledging the bank's efforts in upholding the highest standards of transparency and governance at the time of their annual assessment of NBF's corporate governance standards and practices.

Risk Management

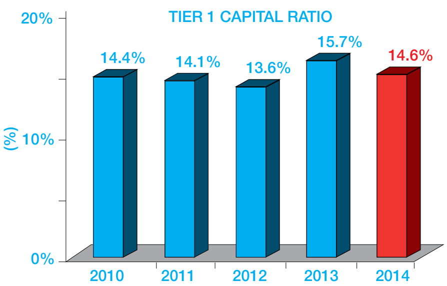
NBF has a well-defined risk appetite, approved by the Board, which articulates, both qualitatively and quantitatively, the amount of risk the bank is willing to accept and undertake. This risk appetite plays a central role in the development of our strategic plans and policies. We have a well-established governance structure and we closely manage our risks to build a sustainable franchise that is in the interest of all our stakeholders. Through our framework we also carefully manage enterprise-wide risks, with the objective of maximising risk-adjusted returns while complying with our risk appetite.

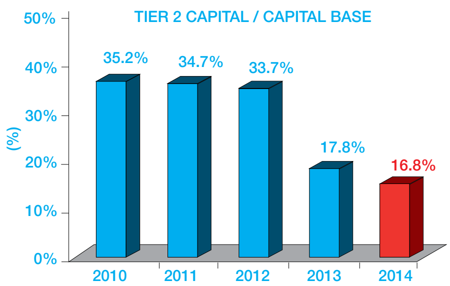
The bank's financial stability is also underpinned by its strong liquidity and capital adequacy ratios. NBF's sound fundamentals were further reaffirmed with the debut of its investment grade ratings from Moody's and Standard and Poor's. Meanwhile, in its last report, Capital Intelligence has re-affirmed the bank's Long Term Foreign Currency Rating (FCR) at 'A-'.

At the same time, NBF continues to be solidly capitalised, as seen in its healthy capital adequacy ratio of 17.6 per cent, Tier 1 capital ratio of 14.6 per cent and common equity ratio of 12.4 per cent. Furthermore, the bank's capital level and quality have also been strengthened in line with its three-year strategic plan, risk appetite, and regulatory requirements including the Basel III standards.

The strategic plan also takes into consideration key uncertainties and risks which the bank may potentially face during the plan period. This includes a possible deterioration in economic or financial and geo-political conditions, stringent regulatory requirements, execution risk, liquidity, market, and operations risks. We seek to contain and mitigate these issues to ensure that they remain within our risk appetite and are adequately compensated.

During 2014, the bank revised its dividend policy from 100% cash dividends, to 50% cash dividends and 50% bonus shares. NBF is also in the process of issuing a second tranche of Tier 1 perpetual notes worth AED 500 million, which is expected to be completed in 2015 and would be based on Basel III guidelines. These measures will further improve the quality of capital and liquidity levels commensurate to the bank's business needs.

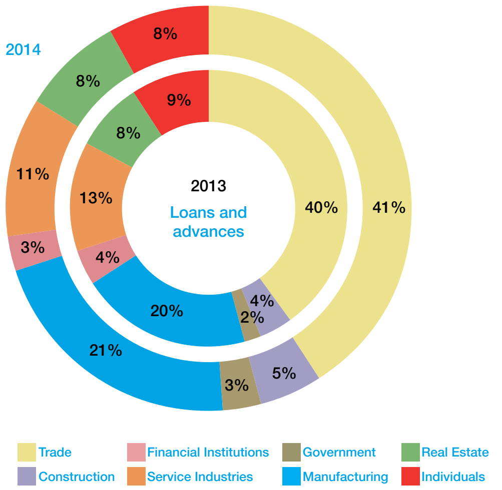


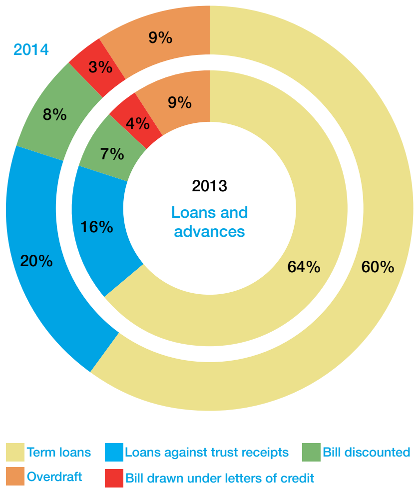


Directors' Report (continued)

NBF has consistently looked to expand its customer base and reduce any systemic credit concentrations that exist. Exposure to its top 20 customers has improved noticeably, falling from 32.2 per cent in 2009, to 20.5 per cent in 2014, further improving its risk profile

The bank also continuously monitors and manages its concentration risk from multiple perspectives, as evident by its current breadth of products, customer segments and sectors:





The bank follows a forward-looking approach while managing various risk elements and maintaining its credit risks so that they are in line with the Basel II methodology of the Foundation Internal Rating Based Approach (F-IRB). This allows NBF to use robust risk management tools and practices in order to assess and manage credit risks more effectively and efficiently.

NBF has also significantly improved its liquidity risk profile over the last three years. Its balance sheet is well-diversified and the bank maintains high quality liquidity levels; its lending-to-stable resources ratio was 87.0 per cent, compared to 84.3 per cent in 2013, and its liquid asset ratio was 20.3 per cent, compared to 22.0 per cent in 2013. At the same time, the bank has improved the duration of its liabilities. It has also implemented mark-to-market transfer pricing, which has resulted in a more accurate reflection of market cost in the measurement of performance and risk-adjusted returns.

The bank maintains prudent market risk limits and its trades are executed predominantly to support customer activities. NBF's investment portfolio is held with the principal objective of liquidity management in mind and comprises mostly of debt securities, with 82.0 per cent of the debt securities portfolio rated "BBB+" and above.

The bank is fully committed to protecting the UAE financial system from money laundering and terrorist financing. It has also strengthened its anti-money laundering policies, procedures and systems in line with the latest recommendations from Financial Action Task Force (FATF), the international anti-money laundering regulatory body. In this regard, the bank has further strengthened its compliance review process through an automated system that screens all payments against pre-defined parameters.

Directors' Report (continued)

Annual learning programs have also been implemented to allow staff to stay at the vanguard of the bank's compliance efforts. Furthermore, NBF has enhanced its engagement with the UAE regulatory authorities to ensure effective compliance with the federal body's requirements.

Future Priorities

Our priorities for 2015 flow naturally from our long-term strategic aspirations:

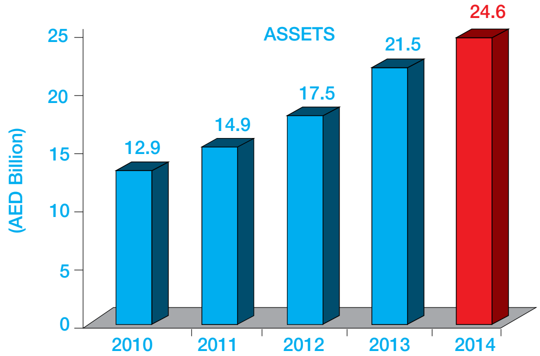
- Continue growing our franchise by diversifying into new business lines and increasing our market share
- Delivering profitable and capital accretive growth, while optimising the deployment of capital and investment spend
- Improving productivity and effectiveness through innovation and digitisation
- Achieving industry-beating customer service standards and developing a market reputation for service excellence
- Accelerate the development of the next generation of leaders in the banking industry

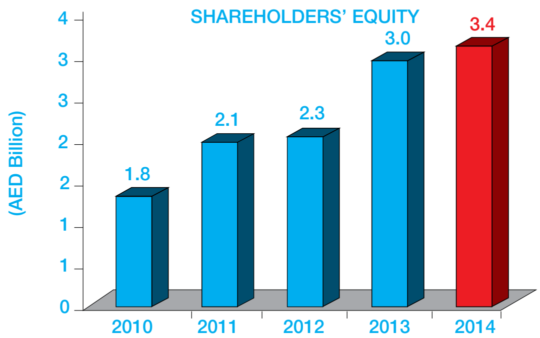
The NBF Board and management are confident that the bank is well-positioned to continue its growth journey in the coming years. This can be achieved through an unwavering focus on enhancing its customer service and product proposition, adopting sound asset and liability management, embracing market best practices, and practicing prudent risk management and good governance. With this in mind, 2015 promises to be another promising year for the bank.

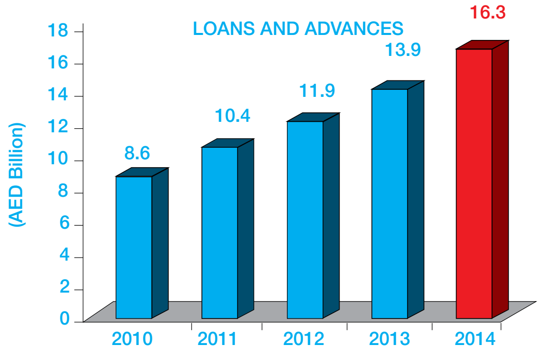
Easa Saleh Al Gurg, KCVO, CBE

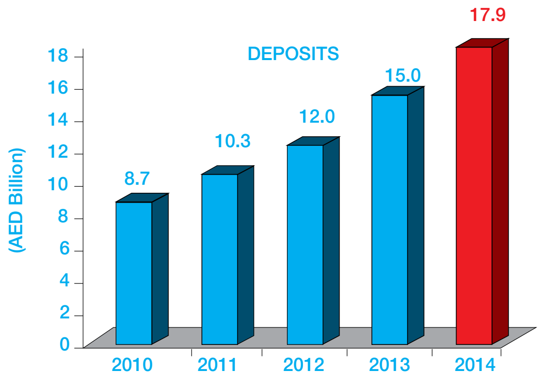
Directors' Report (continued)

NBF's Five-Year Performance Scorecard









NBF has consistently maintained higher than average industry growth rates over the past five years, which is a reflection of its unwavering focus on core business, service quality and prudent risk management.

Assets:

AED 24.6 b

2013: AED 21.5 b

Shareholders' equity:

AED 3.4 b

2013: AED 3.0 b

Loans and advances:

AED 16.3 b

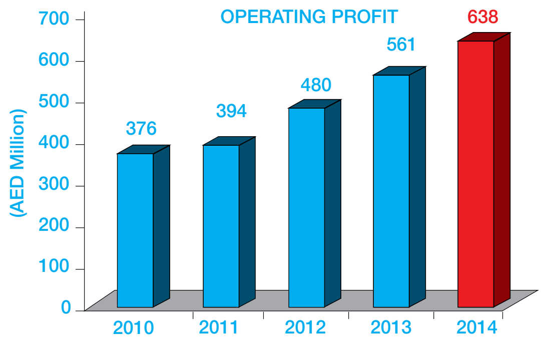
2013: AED 13.9 b

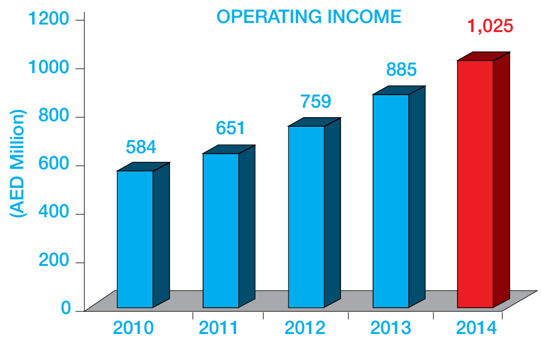
Deposits:

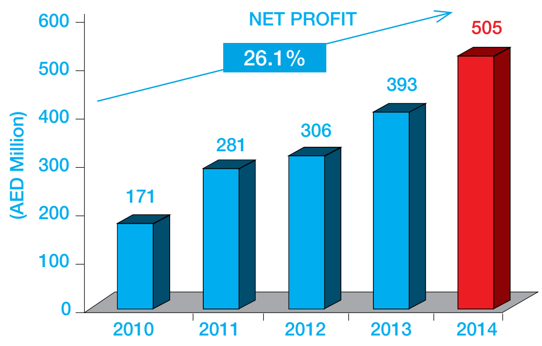
AED 17.9 b

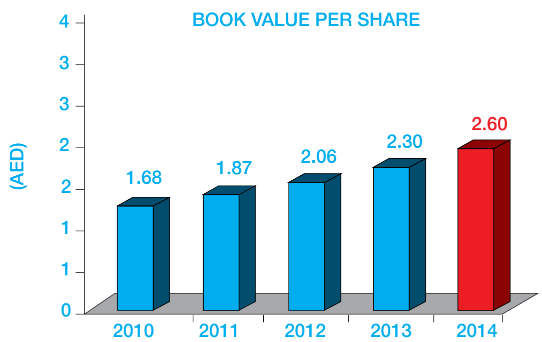
2013: AED 15.0 b

Directors' Report (continued)









NBF's track record for its operating profit has been improving year-on-year on the back of impressive business performance and the strong execution of its strategy.

The bank set a new benchmark for excellence in 2014 when operating income surged past AED 1 billion - an all-time high in NBF's 30-year operating history.

Our record net profit year-on-year at an annual average growth rate of 26.1% since 2010 has resulted in a world class ROAE of 15.8% and consistent growth in book value per share.

Rural Emirati women perfected the art of weaving beautiful and highly practical baskets, fans, food trays, ropes and other artefacts from palm leaves, fronds and trunks.

Sustainability Report

Maintaining a strong focus on sustainable growth and long term value

NBF's commitment to sustainability is not just about the economic activity we support, but how we manage our business and partner the local communities for mutual long term growth. We endeavour to create a robust and sustainable organisation embedding good governance, transparency and opportunities for building trust and confidence amongst our customers, people and communities. Accordingly, the bank's strategy takes into consideration key areas such as staff development, reputation management and community engagement in its ongoing efforts to deliver sustainable growth and maximise long term shareholder value.

We believe that by providing our services efficiently and responsibly, we can make a real impact on the long term overall development of the bank in sustaining resilient, fruitful and constructive relationships with all our internal and external stakeholders. We have taken a step in the right direction by introducing a segmented business focus into the way we operate, which has allowed NBF to offer tailored solutions and differentiated financial opportunities to our customers, with the overall effect of cementing our client relationships and driving the long-term growth of the local economy. We also work with the UAE government and regulatory partners, supporting their policies to jointly address current economic challenges, promote the financial and economic goals of the country and create sustainable opportunities in the local economy. We also aim to foster trust within the community by actively designing and implementing new initiatives that are beneficial to the well-being of society.

We summarise the value generated for our stakeholders below:

Customers / Business Mix

	Assets	**Income**
Corporate Banking	57.3%	52.3%
Business Banking	11.4%	24.2%
Retail Banking	6.5%	7.1%
Treasury & ALM	24.8%	16.4%
Total	100.0%	100.0%

Service Channels

(Branches 15)	Network (36 ATMs)	Online banking	Relationship managers / sales team	3 Subsidiaries	Call center

Products and Income

Loans / credit	Deposits	Investments	Other financial services

Net interest income	66.4% of operating income
Non-interest income	33.6% of operating income

Costs

Employee expenses	28.1% of operating income
Depreciation and amortization	1.8% of operating income
Other administration expenses	7.9% of operating income

Risk Charge

Loan losses	12.9% of operating income

Net Returns

Net profit	49.3% of operating income
Return on average equity	15.8%
Dividends	32.6% of net profit

Sustainability Report (continued)

Market Leadership

As a bank that prides itself as a market leader, NBF continues to position itself at the forefront of industry developments in its principal areas of activity and is an advocate of best practices in business areas from treasury to trade finance.

The bank is a member of the UAE interbank rate setting panel as well as the country's chapter of the International Chamber of Commerce (ICC UAE). In addition, NBF received plaudits for "Best Treasury Management" (three years in a row), "Best SME Trade Finance Offering" (two years in a row) and "Best Customer Service – Corporate & Investment Banking" for the first time in 2014 from the BME Product Awards. It currently retains the Tajara Benchmark Status from Cash Management Matters in recognition of its strengths in corporate banking and trade finance, and is a regular recipient of Commerzbank's Straight Through Processing (STP) awards, which acknowledge excellence in the delivery of commercial payments and financial institution transfers.

NBF is also an active participant of key industry seminars and regularly organises trade workshops apprising clients of the latest business developments. It has featured at top level gatherings such as the IIF MENA Chief Risk Officer Forum, which it co-hosted with the Institute of International Finance in Dubai, and is a fixture at trade shows from the ICC UAE Trade Finance conference to Global Trade Review's Middle East Trade Finance Week. The bank also regularly fields senior management as keynote speakers and panelists for public forums covering diverse topics from information security to gulf energy markets, further reinforcing the bank's reputation as a thought leader.

People

Technology, automation and process enhancement will enable us to deliver competitively, but it is the bank's people who will continue to be the driving force behind its strategies and future ambitions.

At NBF, we believe in maximising the potential of our people by providing an environment that is conducive to growth and inclusivity. Not only does our ongoing focus on staff engagement and talent development reaffirm NBF's belief in its people and the roles they play in the local economy, it motivates and empowers staff to do the right thing on behalf of the bank and its customers.

While NBF has put in place a formal approach towards staff recognition in line with market practices, it has also introduced more "fun" initiatives in recent years to engender a deeper sense of belonging within the organisation. 2014 saw the launch of NBF's second "Pride" campaign, a photography showcase of exemplary employees, whilst the NBF "Happy" video - inspired by the Pharrell Williams' song of the same name – and the bank's first ever staff talent competition only served to underscore the caliber of people at its disposal and promote greater cohesiveness and vibrancy in the workplace.

The bank's fifth employee satisfaction survey achieved a 100 per cent response rate and showed an improvement in overall satisfaction, from 70% in 2013 to 73% in 2014. NBF's staff satisfaction scores are significantly higher than those achieved in the banking sector globally and rival those of high-performing organisations across a variety of disciplines.

NBF remains committed to the development of human capital and achieved on average 5.7 man days of training per employee in 2014. The bank has taken talent management to the next level by putting in place individual development plans for each member of the talent pool. These plans include training programs, rotations and challenging assignments, all aimed at creating the next generation of leaders. During 2014, the bank also launched the NBF behavioral competency model. The competencies have already been incorporated into the bank's recruitment process and were also used in the 360 degree feedback process that was run in May.

Sustainability Report (continued)

The bank continues to pay special attention towards developing its UAE national staff. Not only has the emiratisation ratio improved from 41.1 per cent in 2013 to 42.0 percent in 2014, well above the industry average, but also the quality and seniority of staff have improved. This has been possible on the back of NBF's management trainee program (MTP) and career advancement program (CAP), where capable UAE nationals are developed on a fast track basis to take on more complex jobs and challenges. During 2014, the HR department moved to a new location, complete with a purpose-built training room, which was used extensively for the induction of the fifth and latest batch of management trainees. As for NBF's existing Emirati staff, a national development program was introduced to further support them in their personal development and help them become a more engaged and effective work force for the bank. The program includes psychometric assessments and individual feedback sessions with professional trainers so as to enable Emirati staff to optimise their performance in a multicultural environment.

The bank's commitment to staff wellness continued to be a priority in 2014. During November, a biometric screening bus visited 15 branches over nine days and three quarters of NBF employees took part in health assessments.

Corporate Social Responsibility (CSR) initiatives

NBF has long believed in the importance of giving back to the community and since the formation of its Corporate Social Responsibility (CSR) Committee in 2011, has adopted a comprehensive approach towards championing environment friendly business practices and community efforts.

Notable CSR initiatives over the course of 2014 include:

- Working with NBF client Burjeel Hospital to conduct health awareness sessions for staff from a number of customers
- Sponsorship of the Angel Appeal, an initiative that provides relief to seafarers anchored off the coasts of Fujairah
- Raising awareness of conservation efforts by the Emirates Wild Life Society in association with WWF for the Wadi Wurayah National Park in Fujairah through an NBF ATM donation drive
- Ongoing support of NGOs from the Fujairah Welfare Association to the Dubai Blood Donation Centre
- Sponsoring Fujairah-based activities such as the International Monodrama Festival, Fujairah Marathon and "Zero Nine", an exhibition honouring the work of female entrepreneurs in the emirate

The people of the UAE are renowned for their hospitality. They take pride in a custom by which gahwa (Arabic coffee) is prepared in a dallah and served to guests in small delicate cups called finjaan.

Corporate Governance Report

The NBF Board and the management are committed to complying with the highest ethical and corporate governance standards and international best practices.

The Board of Directors' primary responsibility is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse stakeholders, including its investors, customers, employees, suppliers, regulators, government and the local communities.

The Board plays a key role in the approval and oversight of the organisation's strategy, principal policies, risk appetites, senior appointments and supervision and remuneration of senior executives. The Bank has clearly defined in its Corporate Governance Framework Manual the responsibilities of the Board of Directors, its corporate governance structure and delegated authorities so as to enable the effective and efficient implementation of all activities. In all actions taken by the Board, the Directors exercise their business judgment in what they reasonably believe to be in the best interests of the Bank and to comply with relevant laws, regulations, rules and best banking practices.

The Bank's corporate governance structure not only ensures that high levels of transparency and accountability are maintained, but also provides an appropriate functional independency and control environment from which to carry out its business activities.

The Bank's formal disclosure policy is in place and certain disclosures are included within the Annual Consolidated Financial Statements as notes and can be referred to for further information on the bank's governance and risk management framework as follows:

- Note 2: Details of the bank's compliance with all applicable laws and regulations
- Note 4: Sets out the accounting policies followed
- Note 5: Explains financial risk management practices

The corporate and governance documents accessible through the Bank's website are:

- The memorandum of association and articles of association ensuring the Bank's commitment to high standards of transparency.
- The governance framework of the Board of Directors.
- The code of conduct and whistle blowing policy that encourages communication, transparency and fair business practices.
- The formal disclosure policy and the annual consolidated financial statements.

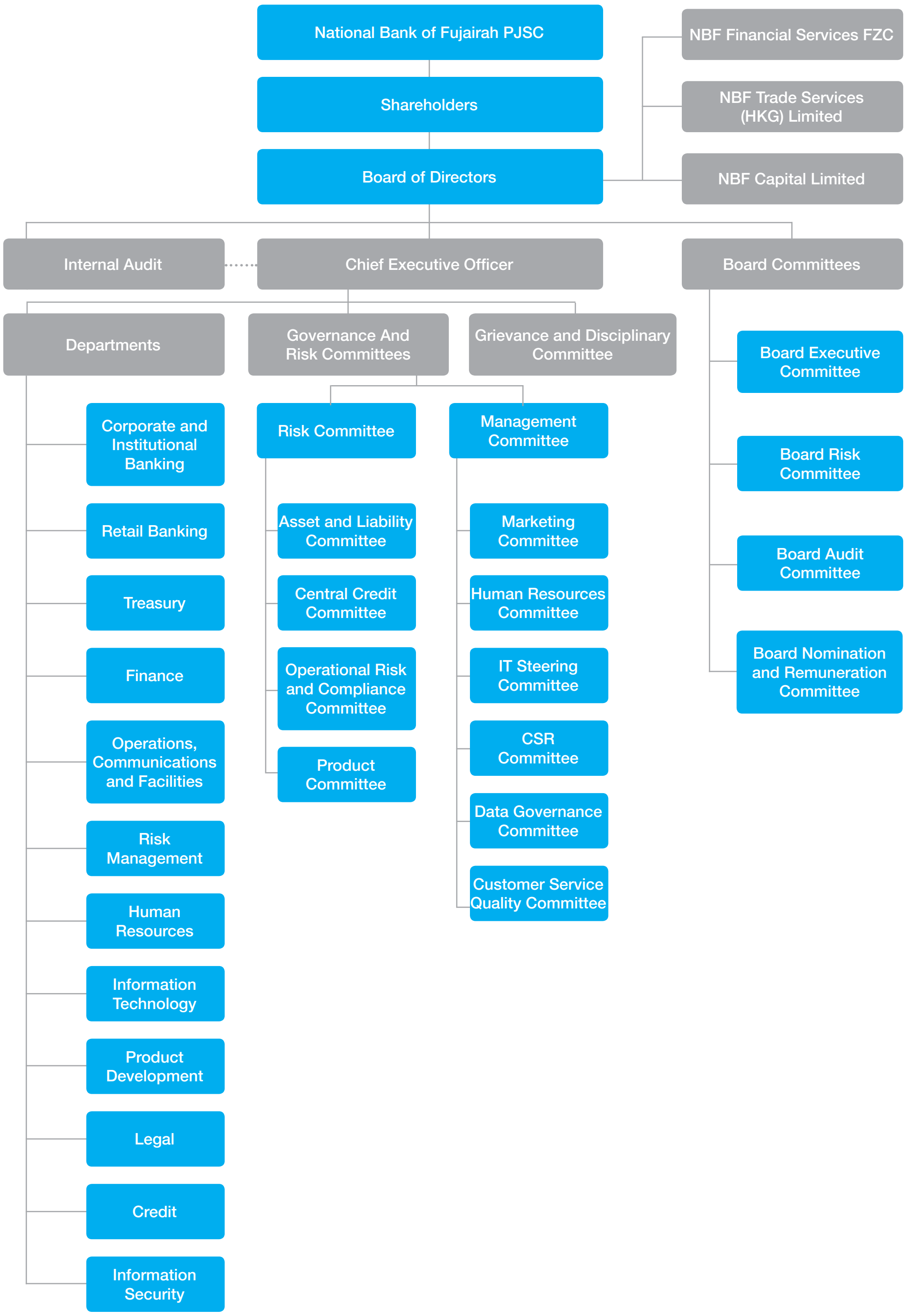
Corporate Governance Report (continued)

Organisation

The diagram below illustrates the high level organisation chart of the Bank. Management Committee and Risk Committee oversee and provide strategic direction to other committees. They also make recommendations to the Board and Board Committees.

Functional Reporting

Administrative Reporting



Corporate Governance Report (continued)

Shareholders

As at 31 December 2014, NBF's shareholders consist of:

Department of Industry and Economy - Government of Fujairah	40.11%
Easa Saleh Al Gurg LLC	21.66%
Investment Corporation of Dubai - Government of Dubai	9.78%
Al Fujairah Investment Company	5.22%
Citizens of the United Arab Emirates	23.23%

2014: During the year, 149,639,035 shares representing 13.60% of the Bank's shares were traded.

(2013: 12,148,756 shares representing 1.10% of the Bank's shares were traded). The largest block of shares that was traded during the year was 38,200,600 shares.

The investor relations and external communications are managed through the Bank's Finance and Corporate Communications departments respectively:

Finance Department

Telephone : +971 9 2029210

Facsimile : +971 9 2229858

Corporate Communications Department

Telephone: +971 4 3971700

Facsimile: +971 4 3975385

E-mail: NBF-investorrelations@nbf.ae

Website: www.nbf.ae and refer to the investor relations section for further details.

Corporate Governance Report (continued)

The Board of Directors

The Board has adopted an annual agenda to ensure that its responsibilities are effectively carried out on a consistent basis. In addition, the Board continues to focus on improving engagement and effectiveness by reviewing the Bank's governance structures, processes and information flow to and from the Board. The Board has established committees such as the Executive Committee, Risk Committee, Nomination and Remuneration Committee and Audit Committee to assist the Board in carrying out its responsibilities. In its continuous endeavour to evolve and enhance with more effective and transparent corporate governance, the Board has reconstituted the Board Committees with more robust functional objectives in 2015 in line with the best industry practices and for upholding the highest standard of ethical and corporate governance standards in the Bank.

The Board also regularly reviews the financial performance of the Bank and its individual business areas. It is also focused on setting the Bank's risk appetite, policies, enterprise governance, risk and control framework and three-year business strategy.

Appointment, retirement and re-election

All directors are required to seek re-election by shareholders every three years. The Board of Directors comprise of eight members (2013: 7 members) who were elected on 19 March 2014 for a term of three years to fulfill their duties and responsibilities. The Chairman, Deputy Chairman and all Directors are Non-Executive Directors. In 2014, two new Directors were elected as part of the Board's succession planning and one director completed his term of office. The formation of the Board of Directors is governed by the Federal Law No. 8 of 1984 (as amended from time to time).

All the directors declare their interests and directorships on an annual basis. Their dealings in the Bank's securities are also on full disclosure and on arm's length basis.

Corporate Governance Report (continued)

Details of the Board members' current terms of office and their external positions are:

Board of Directors and their external positions	**NBF, "the Bank"**
His Highness Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi	Chairman

- *Chairman of Department of Industry & Economy, Government of Fujairah*
- *Chairman of Fujairah Port Authority*
- *Chairman of Fujairah Petroleum Company*
- *Chairman of Fujairah National Group*

His Excellency Easa Saleh Al Gurg, KCVO, CBE — Deputy Chairman

- *Chairman of Easa Saleh Al Gurg Group*
- *Chairman of Al Gurg Fosroc LLC*
- *Chairman of Arabian Explosives Company LLC*
- *Chairman of Al Gurg Unilever LLC*
- *Board Member of Siemens LLC*
- *Member of the Board of Trustees – The Oxford Centre for Islamic Studies, UK*

Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi — Member

- *Vice Chairman of Fujairah National Group*
- *Chairman of Al Sharq Health Care (The Health Care Group of Fujairah National Group)*

Mr. Hussain Mirza Al Sayegh — Member

- *Deputy Chairman of Oilfields Supply Center*
- *Deputy Chairman of Al Nasr Leisure Land*
- *Director of Emirates National Oil Company*
- *Director of Emirates National Bank of Dubai (ENBD)*

Dr. Sulaiman Mousa Al Jassim — Member

- *Former Vice President of Zayed University*
- *Board Member in Al Fujairah National Insurance Company*
- *Chairman of Al Jassim Trading Group*
- *Chairman of Al Jassim Marble and Tile Factory*

Mr. Saif Sultan Al Salami — Member

- *Managing Director of Fujairah National Group*
- *Board Member of Al Fujairah National Insurance Company*
- *Managing Director of Fujairah Investment Company*

Mr. Mohamed Obaid Bin Majed Al Aleeli — Member

- *Director General of Department of Industry & Economy, Government of Fujairah*
- *Chairman of Fujairah Building Industries*

Mr. Abdulla Fareed Al Gurg — Member

- *Group General Manager, Easa Saleh Al Gurg Group*
- *Director of Al Gurg Fosroc LLC*
- *Director of Easa Saleh Al Gurg Charity Foundation*
- *Member of the Advisory Council of School of Business and Management, American University of Sharjah*

Corporate Governance Report (continued)

Directors' interests in the Bank's shares:

Name (Board of Directors)	Shareholding at 1 Jan2014	Shareholding at 31 Dec 2014	Change
Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi	-	-	-
Easa Saleh Al Gurg, KCVO, CBE	-	-	-
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	-	-	-
Hussain Mirza Al Sayegh	-	-	-
Sulaiman Mousa Al Jassim	1,050,896	1,050,896	-
Saif Sultan Al Salami	-	-	-
Mohammed Obaid Bin Majed Al Aleeli	267,845	267,845	-
Abdulla Fareed Al Gurg	-	-	-

Board Committees

The Board of Directors has overall responsibility for the establishment and oversight of the Group's enterprise risk management framework. The Board sets the overall risk appetite and strategy in consultation with the senior management and approves all principal policies and guidelines to manage credit, liquidity, market and operational risks. The Board has established the Board Committees to enhance the oversight mechanism in order to discharge its responsibilities effectively. Each Committee has a formal Charter approved by the Board of Directors.

Executive Committee of the Board consists of six members of the Board and the Chief Executive Officer (CEO), to assist them in the credit and investment approval process in line with the Board delegated authorities. With effect from 2015, the Board has decided to assume credit and investment approval responsibilities directly and dissolve Executive Committee of the Board.

Risk Committee of the Board consists of four Board members and an independent professional member to assist the Board in fulfilling its oversight responsibilities in respect of the risks inherent in the businesses of the Group and the control processes with respect to such risks, the risk profile of the Group, and the risk management, compliance and control activities of the Group. CEO, Chief Risk Officer (CRO) and Chief Financial Officer (CFO) are invitees. The responsibilities of the Committee include, but are not limited to the following:

Corporate Governance Report (continued)

- Review the Group's Enterprise Risk Management and Internal Control Framework;
- Review risk appetite of the Group and establish risk policies for implementation;
- Review credit risk rating system;
- Review policies for Asset and Liability management;
- Review financial and other risk exposures and the steps management has taken to identify, measure, monitor, control and report such exposures including and without limitation review of credit, market, fiduciary, liquidity, reputation, insurance, operational (including fraud, business continuity, information security and legal) and strategic risks;
- Review appropriate transaction or trading limits;
- Review reports and significant findings from the Risk Management Division, Risk Committee of the Management and from the regulatory agencies relating to risk issues and management response;
- Review ICAAP submission to the UAE Central Bank;
- Review quality, structure and adequacy of capital and economic capital allocation methodology;
- Review Basel III, liquidity and leverage review methodology;
- Monitor the Group's compliance with legal and regulatory obligations; and
- Review major disclosure documentation prior to the issue to the market.

Audit Committee of the Board consists of five Board members and an independent professional member. Head of Internal Audit (HOIA), CEO, Chief Operations Officer (COO) and CFO are invitees. Steered by the Deputy Chairman of the Board, receives and considers reports and recommendations from the Head of Internal Audit and the external auditors and any reports issued by the regulatory authorities and makes recommendations to the Board in respect of the financial reporting, systems of internal control and both internal and external audit processes of the Group. The responsibilities of the Committee include, but are not restricted to the following:

- Confirm and assure the independence of the Internal Auditors;
- Review with the Head of Internal Audit and the External Auditor the scope, plan, coordination and effectiveness of internal and external audit efforts;
- Oversight of the preparation of the financial statements including a review of the interim and year end accounts to monitor that such accounts have been prepared in accordance with proper accounting principles and recommend them for adoption by the Board; and
- Review the Group's Internal Control Systems for effectiveness; and all Internal Audit reports concerning any investigation or significant fraud that occurs at the Group.

Corporate Governance Report (continued)

Nomination and Remuneration Committee of the Board comprises the Board's Chairman, the Board's Deputy Chairman and a Board member. The responsibilities of the Committee include, but are not restricted to the following:

- Make recommendations to the Board concerning the appointment, reappointment and succession planning of the Directors except for the position of the Chairman;
- Consider appointment, termination and succession planning for the CEO and as deemed required, other senior Management positions in the Group;
- Review the remuneration policy for the Board and the CEO position and determine their terms of service. The CEO and the full Board will determine and review the Group's Human Resources policy and remuneration levels for the Group;
- Review the structure, size and composition required of the Board and make recommendations to the Board with regard to any changes;
- Evaluate the balance of skills, knowledge and experience on the Board; and
- Review the performance of the Board, and work with the members of the Board to develop recommendations to the Board for any performance adjustments deemed advisable.

In 2014, the Board of Directors met regularly and Directors received information about the activities of the Board Committees, Governance and Risk Committees, and developments in the Bank's business. The members and chairman of the Board's Committees are reviewed on a regular basis to ensure suitability and compliance with requirements. The table 'Board and Board Committees' membership and meetings' below provides details of membership and meetings of the Board and Board Committees in 2014.

Board and Board Committees' membership and meetings:

Name	Expiration of current term of office	Board	Board Executive Committee	Board Risk Committee	Board Audit Committee	Board Nomination & Remuneration Committee
Sheikh Saleh Bin Mohamed Bin Hamad Al Sharqi	2017	C				C
Easa Saleh Al Gurg, KCVO, CBE	2017	DC	C		C	M
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi	2017	M	M	M		
Hussain Mirza Al Sayegh	2017	M	M		M	
Sulaiman Mousa Al Jassim	2017	M	M		M	
Saif Sultan Al Salami	2017	M	M	C	M	M
Mohamed Obaid Bin Majed Al Aleeli	2017	M	M	M	M	
Abdulla Fareed Al Gurg	2017	M	M	M		
Sekhar T N	*			M	M	
Vince Cook	CEO	I	M	I	I	
Adnan Anwar	CFO	I		I	I	
Balaji Krishnamurthy	COO	I			I	
Prasant Sarkar	CRO			I		
Alan Maitland Smith	HOIA				I	
Total no. of meetings		*8*	*-*	*4*	*2*	*4*
Approvals by circulation		*8*	*17*	*-*	*2*	*-*

C : Chairman
DC : Deputy Chairman
M : Member
I : Invitees
* Independent Professional Member
All principal members of the management team presents to the full board at least once in a year.

Corporate Governance Report (continued)

Board of Directors – Remuneration and interests in the Bank's shares

The remuneration of the Board members consists only of the directors' attendance fee, which is a fixed amount for the year and paid annually after the Annual General Meeting. For 2014, the fee was AED 2.75 million, which was charged to the statement of income, and is 0.54% of net profit attributed to shareholders of the Bank.

Board member remuneration paid during 2014 for year 2013	Director fees (AED per annum)
Chairman	500,000
Deputy Chairman	500,000
Director and Board Secretary	250,000 *(Per Person)*

Management

Vince Cook	Chief Executive Officer
Adnan Anwar	Chief Financial Officer
Balaji Krishnamurthy	Chief Operations Officer
Prasant Sarkar	Chief Risk Officer
Vikram Pradhan	Head of Corporate & Institutional Banking
Sharif Mohd. Rafei	Head of Retail Banking and Fujairah Region
Mark Domenic Zanelli	Head of Treasury
Abdulla Aleter	Head of Human Resources
Das P B	Senior Executive Officer - NBF Capital Limited

In order to discharge its responsibilities effectively, the Board has established the Management Committee (MANCOM), Risk Committee (RC), Asset and Liability Committee (ALCO), Central Credit Committee (CCC), Operational Risk and Compliance Committee (ORCC), Product Committee (PC) and Grievance and Disciplinary Committee (GDC). These committees oversee and direct the implementation of the day-to-day activities of the Group in line with the guidelines set by the Board. These committees comprise key officers, who convene regularly for the effective and efficient discharge of their responsibilities. The Group's policies and procedures are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, to monitor risks and adherence to limits, and to ensure effective escalation and reporting. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The Management Committee (MANCOM) steered by the CEO is responsible for the development and monitoring of execution plan of the Group's strategy approved by the Board, implementation of corporate governance, performance measurement and monitoring, deciding on staff related matters, policies and any other administrative matters other than risk matters. MANCOM has further established Marketing Committee (MC), Human Resources Committee (HRC), Corporate Social Responsibility Committee (CSRC), IT Steering Committee (ITSC), Data Governance Committee (DGC) and Customer Service Quality Committee (SQC) for carrying out its responsibilities effectively.

The Risk Committee (RC) steered by the CEO is responsible to develop and recommend to the Board through the Risk Committee of the Board, the Group's risk appetite, develop and review the Group's risk policies and ICAAP (Internal Capital Adequacy Assessment Process), recommend allocations of regulatory and economic capital to portfolio segments and business lines, approve scenarios for stress testing for all risk categories and evaluate potential changes to market conditions. Further, the Committee reviews significant financial or other risks and the steps management has taken to monitor, control and report such risks, including, but without limitation to, review of credit, market, fiduciary, liquidity, reputation, operational, compliance, legal, fraud and strategic risks. It obtains assurance that significant risks are being measured, monitored, evaluated, and appropriately escalated through periodic updates, risk reporting, and key risk indicator reviews from ALCO, CCC, ORCC and PC.

The Asset and Liability Committee (ALCO) steered by the CFO is responsible for directing asset and liability growth and allocations in order to achieve the Group's strategic goals. It monitors the Group's liquidity and market risks and the Group's risk profile in the context of economic developments and market fluctuations, to ensure that the Group's ongoing activities are compatible with the risk appetite approved by the Board. The Committee is also responsible for developing and establishing ALCO metrics and MIS for review, measurement, monitoring and control of all market and liquidity risks and stress testing.

The Central Credit Committee (CCC) steered by the Head of Credit is responsible for credit decisions for the Group's lending portfolio, setting country and other high level Group risk limits, oversee portfolio reviews with particular focus on quality, dealing with impaired assets and grading of credit facilities. The Committee is also responsible for developing and establishing credit risk metrics and MIS for review, measurement, monitoring and control of all credit risks, stress testing for reviews of credit risk policies, enhancement of credit risk reporting and processing.

The Operational Risk and Compliance Committee (ORCC) steered by the Head of Operational Risk and Compliance is responsible for independently assessing and monitoring the operational risks of the Group against the Group's operational risk management policies, internal control framework and operational risk appetite as approved by the Board. It is responsible to review operational procedures, adequacy of the internal control systems, develop and establish operation risk metrics and MIS for review, measurement, monitor and control of operational risks. Further, it is also responsible for the implementation of the Business Continuity Plan (BCP) and Disaster Recovery Programme (DR), review of anti-money laundering unit reports and adequacy of compliance with relevant laws, regulations and license conditions. The Committee also reviews reports from internal, external and Central Bank audits and monitors progress on actions initiated to address all operational risks covered by these reports.

The Product Committee (PC) steered by the CRO is responsible to review and approve all risks, designs, pricing, financials, product risk ratings, processes for distribution, product control and MIS processes of proposed new products and services. It ensures that the products and services fall within the risk appetite and the Group's strategic plans. It is responsible for monitoring the Group's competitiveness in product positioning and developments in technology that could have an impact on risk profile and profitability of products and services.

The Marketing Committee (MC) steered by the CEO is responsible for challenging marketing strategies or plans proposed by the Business Segments and recommending to the MC the changes for improving marketing and selling activities. It co-ordinates and monitors the support and resources required, new product and channels development and pricing strategies. It oversees plans for developing business with the Group's key customers and monitors progress together with setting customer service standards.

Corporate Governance Report (continued)

The Human Resources Committee (HRC) steered by the CEO is responsible for ensuring internal equity of compensation and overall evaluation of jobs for consistent and accurate assessment. It is responsible for grade and compensation structure together with benchmarking in line with the market conditions. In order to achieve its objectives, the Committee reviews the organization design and changes / improvements to the rewards and benefits structure and discusses future human resources planning, policies and procedure guidelines.

The IT Steering Committee (ITSC) steered by the CEO is responsible to provide direction to the Group's key initiatives and assist in the alignment of IT spend with business needs. It is responsible for providing oversight on IT projects and direction on technology dependent projects including prioritization and resource alignment.

The Corporate Social Responsibility Committee (CSRC) steered by the Head of Internal Audit is responsible for the oversight of environmental management, community initiatives and communication of CSR initiatives within and outside the Group.

The Grievance and Disciplinary Committee (GDC) steered by Head of Internal Audit is empowered by the Bank's MANCOM to act impartially when dealing with staff grievances and disciplinary cases in accordance with Group rules, policies and UAE laws.

The Data Governance Committee (DGC) steered by CFO is responsible for the data management with respect to organisational goals and regulatory requirements. It has the responsibility for defining the organizational structure and roles of the governance framework for the purpose of decision making about data policies, processes, data ownership, data security classification, data retention and for defining clear and consistent data structures and models to leverage information-critical business planning and support system-wide coordination and collaboration, effective decision-support, and efficient operations.

The Customer Service Quality Committee (SQC) steered by Head of Corporate and Institutional Banking drives excellence in service quality across the Bank with the objective of achieving external / internal customer satisfaction and loyalty. It is responsible for defining clear customer service goals and deliverables, establish framework to gather and analyze feedback, identify service gaps and initiate process improvements. It undertakes benchmarking with industry to assess service standards, drives quality training sessions and standard certifications for internal units.

External Auditors

PricewaterhouseCoopers (PWC) were appointed external auditors for the Bank and its subsidiaries by the shareholders at the Annual General Meeting (AGM) held on 19 March 2014. The fee for external audit work for the audit of the Bank and its subsidiaries for the year ended 31 December 2014 was AED 619,479 (plus out-of-pocket expenses).

In addition, the fee for other services rendered amounted to AED 128,555. All non-audit work is pre-approved by the Board Audit Committee and / or the Board.

PricewaterhouseCoopers,
Emaar Square, Building 4 Level 8
P.O. Box 11987, Dubai, United Arab Emirates
Telephone : 04 - 3043100
Facsimile : 04 - 3304100

Independent Auditor's Report

In former times, falconry was practiced to supplement the diets of nomadic communities.
Today, it is a sport honouring the power and beauty of our national bird.

Independent Auditor's Report

Independent Auditor's Report to the Shareholders and Directors of National Bank of Fujairah PJSC

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of National Bank of Fujairah PJSC ("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal Requirements

As required by the UAE Federal Law No. (8) of 1984, as amended in respect of the Bank, we report that:

(i) we have obtained all the information we considered necessary for the purpose of our audit;

(ii) the financial statements of the Bank comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, and the Articles of Association of the Bank;

(iii) the Bank has maintained proper books of account and its financial statements are in agreement therewith;

(iv) the Bank's financial information included in the Chairman's report and Directors' report is consistent with the books of account of the Bank; and

(v) nothing has come to our attention, which causes us to believe that the Bank has breached any of the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2014.

Further, as required by the UAE Union Law No. (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
21 January 2015

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

Group financial statements

Following the traditions of the past, Emirati men gather to sing songs and perform dances using sticks, swords or rifles to re-enact and celebrate famous events from the nation's rich history.

Consolidated statement of financial position

As at 31 December 2014

	Note	2014 AED'000	2013 AED'000
Assets			
Cash and balances with the UAE Central Bank	7	4,296,469	4,037,607
Due from banks and financial institutions	8	1,912,892	1,756,538
Investments	9	598,136	568,514
Loans and advances	10	16,328,448	13,864,697
Property and equipment and capital work-in-progress	12	98,264	85,765
Intangible assets	13	26,667	22,551
Other assets	14	1,325,438	1,122,548
Total assets		24,586,314	**21,458,220**
Liabilities			
Due to banks	15	680,835	601,989
Customer deposits	16	17,931,731	14,997,123
Term borrowings	15	1,173,160	1,630,455
Other liabilities	17	1,436,161	1,199,119
Total liabilities		21,221,887	**18,428,686**
Shareholders' equity			
Share capital	18	1,100,000	1,100,000
Statutory reserve	18	403,126	353,647
Special reserve	18	298,126	248,647
Available-for-sale revaluation reserve		(689)	(1,864)
Proposed cash dividends	18	82,500	137,500
Proposed bonus issue	18	82,500	-
Retained earnings		898,864	691,604
Tier 1 capital notes	19	500,000	500,000
Total shareholders' equity		3,364,427	**3,029,534**
Total liabilities and shareholders' equity		24,586,314	**21,458,220**

These consolidated financial statements were approved and authorized for issue by the Board of Directors on 21 January 2015 and are signed on its behalf by:

Saleh Bin Mohamed Bin Hamad Al Sharqi
Chairman

Easa Saleh Al Gurg, KCVO, CBE
Deputy Chairman

The notes on pages 40 to 90 form an integral part of these consolidated financial statements.
The report of the independent auditors is set out on page 33.

Consolidated statement of income

For the year ended 31 December 2014

	Note	2014 AED'000	2013 AED'000
Interest income	*20*	928,689	838,684
Interest expense	*21*	(247,616)	(256,680)
Net interest income		681,073	**582,004**
Net fees and commission income	*22*	252,068	223,092
Foreign exchange and derivatives income		70,779	62,713
Income from investments	*23*	5,148	6,453
Other operating income	*24*	16,140	10,388
Operating income		1,025,208	**884,650**
Operating expenses			
Employee benefits expense	*25*	(287,876)	(236,990)
Depreciation and amortization	*12, 13*	(18,748)	(14,640)
Other operating expenses		(80,792)	(72,329)
Total operating expenses		(387,416)	**(323,959)**
Operating profit before impairment allowances		637,792	**560,691**
Net impairment allowances	*10*	(132,354)	(167,571)
Net profit for the year		505,438	**393,120**
Earnings per share (basic and diluted)	*26*	AED 0.43	**AED 0.34**

Appropriations have been reflected in consolidated statement of changes in equity.
The notes on pages 40 to 90 form an integral part of these consolidated financial statements.
The report of the independent auditors is set out on page 33.

Consolidated statement of comprehensive income

For the year ended 31 December 2014

	2014 AED'000	2013 AED'000
Net profit for the year	505,438	393,120
Other comprehensive income:		
Items that may be re-classified subsequently to the statement of income		
Change in available-for-sale investments:		
Recycling to income statement of net fair value gains on disposal of available-for-sale investments	(5,313)	(5,569)
Net changes in fair value of available-for-sale investments	6,488	400
Others	-	(91)
Net change in available-for-sale investments	1,175	**(5,260)**
Total comprehensive income for the year	506,613	**387,860**

The notes on pages 40 to 90 form an integral part of these consolidated financial statements.
The report of the independent auditors is set out on page 33.

Consolidated statement of cash flows

For the year ended 31 December 2014

Operating activities	*Note*	2014 AED'000	2013 AED'000
Net profit for the year		505,438	**393,120**
Adjustments for :			
Depreciation and amortization		18,748	14,640
Gain on disposal of property and equipment		(100)	(64)
Net impairment losses		132,354	167,571
Net fair value gains on disposal of investments		(5,313)	(6,151)
Net change in fair value of investments at fair value through profit and loss		165	(302)
Cash flow from operating activities before changes in operating assets and liabilities		651,292	**568,814**
Change in statutory reserve with the UAE Central Bank		(150,493)	(148,998)
Change in due from banks and financial institutions		(551,599)	(558,920)
Change in loans and advances		(2,596,105)	(1,836,260)
Change in other assets		(202,890)	(85,707)
Change in due to banks		(107,161)	71,522
Change in customer deposits		2,934,608	2,957,021
Change in other liabilities		237,042	134,066
Net cash generated from operating activities		214,694	**1,101,538**
Investing activities			
Purchase of property and equipment, intangible assets and capital work-in-progress		(35,363)	(19,449)
Proceeds from sale of property and equipment		100	64
Purchase of investments		(861,694)	(650,439)
Proceeds from sale of investments		838,395	861,950
Net cash (used in) / generated from investing activities		(58,562)	**192,126**
Financing activities			
Proceeds from term borrowings		589,510	675,475
Repayment of term borrowings		(1,046,805)	(598,571)
Cash dividends		(137,500)	(110,000)
Proceeds from issue of Tier 1 capital notes		-	500,000
Tier 1 capital notes coupon paid		(34,220)	(17,157)
Net cash (used in) / generated from financing activities		(629,015)	**449,747**
Net change in cash and cash equivalents		(472,883)	**1,743,411**
Cash and cash equivalents at beginning of the year		4,222,484	2,479,073
Cash and cash equivalents at end of the year	*28*	3,749,601	**4,222,484**

The notes on pages 40 to 90 form an integral part of these consolidated financial statements.
The report of the independent auditors is set out on page 33.

Consolidated statement of changes in equity

For the year ended 31 December 2014

	Share capital AED'000	Statutory Reserve AED'000	Special reserve AED'000	Retained earnings AED'000	Available -for-sale revaluation reserve AED'000	Proposed dividends AED'000	Tier 1 capital notes AED'000	Total AED'000
At 1 January 2013	1,100,000	314,119	209,119	532,197	3,396	110,000	-	2,268,831
Total comprehensive income for the year	-	-	-	393,120	(5,260)	-	-	387,860
Issue of Tier 1 capital notes (note 19)	-	-	-	-	-	-	500,000	500,000
Tier 1 capital notes coupon paid (note 19)	-	-	-	(17,157)	-	-	-	(17,157)
Proposed dividends	-	-	-	(137,500)	-	137,500	-	-
Transfer to reserves	-	39,528	39,528	(79,056)	-	-	-	-
2012 cash dividends paid	-	-	-	-	-	(110,000)	-	(110,000)
At 31 December 2013	**1,100,000**	**353,647**	**248,647**	**691,604**	**(1,864)**	**137,500**	**500,000**	**3,029,534**
At 1 January 2014	1,100,000	353,647	248,647	691,604	(1,864)	137,500	500,000	3,029,534
Total comprehensive income for the year	-	-	-	505,438	1,175	-	-	506,613
Tier 1 capital notes coupon paid (note 19)	-	-	-	(34,220)	-	-	-	(34,220)
Proposed cash dividends	-	-	-	(82,500)	-	82,500	-	-
Proposed bonus issue	-	-	-	(82,500)	-	82,500	-	-
Transfer to reserves	-	49,479	49,479	(98,958)	-	-	-	-
2013 cash dividends paid	-	-	-	-	-	(137,500)	-	(137,500)
At 31 December 2014	1,100,000	403,126	298,126	898,864	(689)	165,000	500,000	3,364,427

The notes on pages 40 to 90 form an integral part of these consolidated financial statements.
The report of the independent auditors is set out on page 33.

Notes to the consolidated financial statements

For the year ended 31 December 2014

1. Legal status and activities

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

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

The Bank has three fully owned subsidiary companies:

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

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

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

Notes to the consolidated financial statements (continued)

3. Basis of preparation

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board (IASB), interpretations issued by International Financial Reporting Interpretations Committee (IFRIC) and applicable requirements of laws of the United Arab Emirates.

Along with these consolidated financial statements, the Group has presented Basel II Pillar 3 disclosures in accordance with the guidelines issued by the UAE Central Bank. The adoption of Basel II Pillar 3 guidelines has impacted the type and amount of disclosures made in these consolidated financial statements, but had no impact on the reported profits or financial position of the Group. In accordance with the requirements of Basel II, the Group has provided full comparative information.

4. Significant accounting policies

(a) Standards, amendments and interpretations

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

New standards and significant amendments to standards applicable to the Group	Effective date
Amendments to IFRS 10, 'Consolidated financial statements', IFRS 12, 'Disclosure of interest in other entities' and IAS 27, 'Separate financial statements' on consolidation for investment entities The amendments give an exception to entities that meet an 'investment entity' definition and which display particular characteristics. These amendments mean that many investment funds and similar entities will be exempt from consolidating most of their subsidiaries. Instead, they will measure them at fair value through profit or loss. Changes have also been made to IFRS 12 to introduce disclosures that an investment entity needs to make.	1 January 2014
Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting These amendments are to the application guidance in IAS 32 and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.	1 January 2014
Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal, including the discount rate used if the recoverable amount is determined using a present value technique.	1 January 2014
Amendment to IAS 39, 'Financial instruments: recognition and measurement' on novation of derivatives This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.	1 January 2014

There is no impact of these provisions on the consolidated financial statements of the Group.

Notes to the consolidated financial statements (continued)

4. **Significant accounting policies** *(continued)*

(a) **Standards, amendments and interpretations** *(continued)*

There are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on 01 January 2014 that have had a material impact on the Group's consolidated financial statements.

Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2014 and not early adopted

New standards and significant amendments to standards issued but not yet effective for the Group	Effective date
Annual improvements 2012 These annual improvements amend standards from the 2010 - 2012 reporting cycle. It includes changes to: • IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in applying the aggregation criteria to operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. • IFRS 13, 'Fair value measurement' which amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short term receivables and payables on an undiscounted basis where the effect of discounting is immaterial. • IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. • IAS 24, 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required.	1 July 2014
Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation. This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances.	1 January 2016
Amendments to IFRS 10 and IAS 28, 'Investments in associates and joint ventures' regarding the sale or contribution of assets between an investor and its associate or joint venture These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary.	1 January 2016

Notes to the consolidated financial statements (continued)

4. Significant accounting policies *(continued)*

(a) Standards, amendments and interpretations *(continued)*

New standards and significant amendments to standards issued but not yet effective for the Group	Effective date
Annual improvements 2014 These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to: • IFRS 7, 'Financial instruments: Disclosures' - The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. • IAS 19, 'Employee benefits' - The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise.	1 July 2016
IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2017
IFRS 9, 'Financial instruments' The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018 Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception: Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.

Notes to the consolidated financial statements (continued)

4. Significant accounting policies *(continued)*

(a) Standards, amendments and interpretations *(continued)*

The Group is assessing the impact of the above new standards and amendments to published standards or IFRIC interpretations issued but not yet effective for the Group's financial year beginning on 1 January 2014.

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

(b) Basis of measurement

The consolidated financial statements are prepared under the historical cost convention as modified by the revaluation of the following financial assets:

- derivative financial instruments are measured at fair value;
- financial instruments at fair value through profit or loss are measured at fair value; and
- available-for-sale financial assets are measured at fair value.

(c) Functional and presentation currency

Items included in the consolidated financial statements of the Group are measured and presented in the United Arab Emirates Dirham ("AED") which is the functional currency of the Group.

The accounting policies set out below have been applied consistently by the Group to all periods presented in these consolidated financial statements.

(d) Basis of consolidation

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(e) Financial instruments

Classification

A financial instrument is any contract that gives rise to a financial asset / liability for the Group and a financial asset / liability or equity instrument of another party. All assets and liabilities in the consolidated statement of financial position are financial instruments, except property and equipment, capital work-in-progress, intangible assets, prepayments, advance receipts, provision of employee end of service benefits and shareholders' equity.

Notes to the consolidated financial statements (continued)

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

Classification *(continued)*

Financial assets are categorized as follows:

Financial assets at fair value through profit or loss (FVTPL): This category has two sub-categories: financial assets held-for-trading, and those designated to be fair valued through profit or loss at inception. The Group has designated financial assets at fair value through profit or loss when the assets are managed, evaluated and reported internally on a fair value basis. Derivatives are also categorized as held for trading unless they are designated as hedges.

Loans and receivables are non-derivative financial assets with fixed and determinable payments that are not quoted in an active market.

Held-to-maturity (HTM) assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, where the Group has the positive intent and ability to hold to maturity. Where the Group sells other than an insignificant amount of held-to-maturity assets, the entire category would be re-classified as available-for-sale.

Available-for-sale (AFS) assets are those non-derivative financial assets that are designated as available-for-sale or not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

Initial recognition

Regular purchases and sales of financial assets are recognized on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial instruments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the consolidated statement of income. Loans and advances are recognized when cash is advanced to the borrowers.

De-recognition

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortized cost using the effective interest method. A financial liability is derecognized when it is extinguished.

Measurement

Subsequent to initial recognition, all financial instruments to be fair valued through profit or loss and available-for-sale assets are measured at fair value.

All held-to-maturity financial instruments and loans and advances for which the fair value has not been hedged are measured at amortised cost less impairment losses.

Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment. Premiums and discounts including initial transaction costs are included in the carrying amount of the related instrument.

4. **Significant accounting policies** *(continued)*

(e) **Financial instruments** *(continued)*

Fair value measurement principles

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available, the fair value of a financial instrument is based on quoted market prices in an active market for that instrument. A market is regarded as active in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. If a quoted market price is not available or if a market for a financial instrument is not active, the fair value is determined by using valuation techniques. Valuation techniques include net present value techniques, discounted cash flow methods, comparison to similar instruments for which market observable prices exist. For investments under management with external fund managers, fair value is provided by the external fund managers, and is determined based on the market value of underlying investments of each fund. In all other cases, the instruments are measured at acquisition cost, including transaction cost, less impairment losses, if any.

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

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

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

Fair value hierarchy

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

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

Pursuant to disclosure requirements of IFRS 7 Financial Instruments: Disclosures, the Group has disclosed the relevant information under note 6.2.

Notes to the consolidated financial statements (continued)

4. Significant accounting policies *(continued)*

(e) Financial instruments *(continued)*

Gains and losses on subsequent measurement

Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the consolidated statement of income in the period in which they arise.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in other comprehensive income, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in other comprehensive income is reclassified to the consolidated statement of income. In case where the available-for-sale investments with fixed maturity are reclassified to held-to-maturity investments, the fair value gain or loss till the date of the reclassification is held in equity and is amortised to the consolidated statement of income over the remaining life of the held-to-maturity investments using the effective interest rate method.

Impairment

Financial assets are reviewed at each reporting date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is estimated. Impairment loss is the difference between the net carrying value of an asset and its recoverable amount. Any such impairment loss is recognised in the consolidated statement of income. The recoverable amount of loans and advances is calculated as the present value of the expected future cash flows, discounted at the instrument's original effective interest rate. Short-term (up to one year maturity) balances are not discounted.

The Group considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. All individually significant loans and advances and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the write down, the write down or allowance is reversed through the consolidated statement of income.

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss is measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in consolidated statement of income, and is removed from the consolidated statement of other comprehensive income and recognised in the consolidated statement of income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in consolidated statement of income, the impairment loss is reversed, with the amount of the reversal recognized in consolidated statement of income.

However, impairment losses recognized in the consolidated statement of income on equity instruments are not reversed through the consolidated statement of income because subsequent increase in fair value is recognized in fair value reserve.

Notes to the consolidated financial statements (continued)

4. Significant accounting policies *(continued)*

(f) Derivatives

Recognition and fair valuation

Derivative financial instruments are initially recognised at fair value which is normally the transaction price. Subsequent to their initial recognition, derivative financial instruments are measured at fair value. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and pricing models, as appropriate.

Derivative financial instruments with positive market values (unrealised gains) are included in assets, and derivative financial instruments with negative market values (unrealised losses) are included in liabilities.

Derivatives may be embedded in another contractual arrangement (a "host contract"). The Group accounts for such embedded derivatives at fair value separately from the host contract when the host contract is not itself carried at fair value through profit or loss, and the characteristics of the embedded derivative are not clearly related to the host contract.

Gain and losses on subsequent measurement

Gains or losses on the re-measurement of both the hedging instruments and the hedged items are recognised in the consolidated statement of income.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the consolidated statement of income, along with changes in the fair value of the assets and liabilities that are attributable to the hedged risk.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the hedging reserve in other comprehensive income. Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss. Any gain or loss in fair value relating to an ineffective portion is recognized immediately in the consolidated statement of income.

(g) Key accounting estimates and judgments

The preparation of the consolidated 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. These disclosures supplement the commentary on financial risk management set out in note 5. In particular, considerable management's judgment is required in the following:

Impairment losses on loans and advances and held-to-maturity and available-for-sale investments

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgments about a counter party's financial situation and the net realisable value of any underlying collateral.

Notes to the consolidated financial statements (continued)

4. Significant accounting policies *(continued)*

(g) Key accounting estimates and judgments *(continued)*

Impairment losses on loans and advances and held-to-maturity and available-for-sale investments *(continued)*

Each impaired asset is assessed on its merits, and the workout strategy and estimate of cash flows considered recoverable are independently approved by the Credit Risk function. Judgment is also exercised while reviewing factors indicating and determining the objective evidence of impairment in respect of loans and advances and held-to-maturity and available-for-sale investments.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of loans and advances and held-to-maturity investment securities with similar credit risk characteristics when there is objective evidence to suggest that the portfolio contains impaired loans and advances and held-to-maturity investment securities, but the individual impaired items cannot be identified. In assessing the need for collective impairment allowance, management considers factors such as credit quality, portfolio size, concentrations and economic factors.

Available for sale investments

The Group exercises judgment to consider impairment on the available-for-sale investments. This includes determination of whether any decline in the fair value below cost of equity instruments is significant or prolonged. In making this judgment, the Group evaluates among other factors, the normal volatility in market price. In addition, the Group considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance or changes in technology.

Held-to-maturity investments

The Group follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity.

(h) Due from banks and financial institutions

Amounts due from banks and financial institutions are initially recognized at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amounts due from banks and financial institutions is assessed as outlined in the accounting policy on financial instruments.

(i) Property and equipment, capital work-in-progress and depreciation

Property and equipment are stated at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of replacing an item of property and equipment is recognised in the carrying value of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. Depreciation is charged to the consolidated statement of income on a straight line basis over the estimated useful lives of property and equipment. Freehold land is not depreciated.

Where the carrying value of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal are recognized in the consolidated statement of income. The estimated useful lives for various types of assets are as follows:

Buildings	20 to 30 years
Leasehold improvements	Over the period of lease
Furniture, EDP and other equipment	4 years
Motor vehicles	3 years

4. Significant accounting policies *(continued)*

(i) Property and equipment, capital work-in-progress and depreciation *(continued)*

Useful life and the depreciation method are re-assessed at each reporting date.

Capital work-in-progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with the Group's accounting policy.

(j) Intangible assets

Intangible assets represent software acquired by the Group which is stated at cost less accumulated amortisation and impairment losses, if any. Cost of the software represents the costs incurred to acquire and bring the specific software to use

Amortisation is recognised in the consolidated statement of income on a straight-line basis over the estimated useful life of the software, from the date it is available for use. The useful life of software is estimated to be five years.

(k) Government grants

Land granted by the Government of Fujairah is recorded at nominal value.

(l) Due to banks, term borrowings and customer deposits

Due to banks, term borrowings and customer deposits are initially measured at fair value plus directly attributable transaction costs. Subsequently, these are measured at amortised cost using the effective interest method except where the Group chooses to carry the liabilities at fair value through the consolidated statement of income. Amortised cost is calculated by taking into account any discount or premium on settlement.

(m) Provisions

A provision is recognised if as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability.

(n) Guarantees

Guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment or provide agreed service when due in accordance with the terms of a debt. Guarantees are recognized at their fair value.

The guarantee liability is subsequently carried at the higher of the amortised cash flow and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

(o) Employee end of services benefits

Provision is made, in accordance with the provisions of IAS 19, for the end of service benefits due to employees in accordance with the UAE labour law for their periods of service up to the financial position date and the provision arising is disclosed as 'provision for employees' end of service benefits' in the statement of financial position. The Group pays its contributions in respect of UAE citizens under the UAE pension and social security law and no further liability exists.

Notes to the consolidated financial statements (continued)

4. Significant accounting policies *(continued)*

(p) Interest income and expense

Interest income and expense for all interest bearing financial instruments are recognised in the consolidated statement of income on an accruals basis using the effective interest rates of the financial assets or financial liabilities to which they relate.

The effective interest rate is the rate that discounts estimated future cash receipts and payments earned or paid on a financial asset or a liability through its expected life or, where appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The effective interest rate is established on initial recognition of the financial asset and liability and is not revised subsequently unless re-priced.

When calculating effective interest rates, the Group estimates cash flows considering all contractual terms of the financial instruments excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

(q) Net fees and commission income

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income earned and expense incurred from the provision of services are recognised as revenue and expense, as and when the services are rendered.

(r) Income from investments

Gains and losses on investments at fair value through profit or loss, are recognized in the consolidated statement of income.

(s) Dividend income

Dividend income is recognised when the Group's right to receive the payment is established.

(t) Cash and cash equivalents

For the purposes of the consolidated statement of cash flow, cash and cash equivalents comprise cash on hand and balances with the UAE Central Bank (excluding statutory reserve) and other balances due from (excluding bills discounted) and due to banks maturing within three months. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

(u) Foreign currencies

Foreign currency transactions are recorded at the rate of exchange ruling at the value date of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the rate of exchange ruling at the reporting date. Any resultant gains and losses are recognised in the consolidated statement of income.

Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Forward foreign exchange contracts are translated into AED at the mid-market rate of exchange applicable to their maturities ruling at the reporting date. Any resultant gains and losses are recognized in the consolidated statement of income.

Notes to the consolidated financial statements (continued)

4. Significant accounting policies *(continued)*

(v) Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. The operating results of each operating segment are reviewed regularly by the managementand Chief Executive Officer (together referred to as the "Chief Operating Decision Maker" or "CODM") to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

(w) Offsetting

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when, and only when, the Group has a legally enforceable right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS / IAS, or when gains and losses arise from a group of similar transactions such as in the Group's trading activity.

(x) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

(y) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated based on the higher of fair value less costs to sell and value in use. The reduction in carrying amount is recognised in the consolidated statement of income.

(z) Operating leases

Leases of assets under which the lessor effectively retains all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases are recognised in the consolidated statement of income on a straight-line basis over the term of the lease.

(aa) Acceptances

Acceptances have been considered within the scope of IAS 39 - Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

(ab) Islamic financing and deposits

The Group engages in *Sharia*' compliant Islamic banking activities through a window called "NBF Islamic." The Islamic operations were launched in 2014 and the various Islamic instruments detailed below are accounted for in accordance with IAS 39 - Financial instruments: Recognition and Measurement.

4. **Significant accounting policies** *(continued)*

(ab) **Islamic financing and deposits** *(continued)*

Murabaha

Murabaha receivables are non-derivative financial assets with fixed payments that are not quoted in an active market. Murabaha is a sale transaction in which the seller (Group) expressly mentions the actual cost of the asset to be sold to the customer, and sells it to the customer on a cost plus mark-up (profit) basis. It is in fact the sale of an asset for a profit, usually on deferred payment basis.

Income on Murabaha financing is recognized on a time apportioned basis over the period of the Murabaha contract, using the effective profit rate method.

Ijara

Ijara involves a contract where the Group buys and then leases an item to a customer for a specified rental over a specific period. The duration of lease, as well as the basis for rental, are set and agreed in advance. The Group acquires the beneficial ownership of the property to lease the usufruct to the customer.

Income on Ijara financing is recognized on a time apportioned basis over the lease term, using the effective profit rate method.

Qard

A Qard is the transfer of ownership in tangible wealth (money), from the customer to the Group, and it is binding on the Group to return equal wealth (money) to the customer on demand or as per the agreed terms, which means that the principal is to be repaid on demand. The Islamic current account offered to customers is based on the concept of Qard, a profit free amount received from the customer to the Group, on which no profit or other form of return is payable.

5. **Financial risk management**

(a) **Introduction**

Risk is inherent in the Group's activities and is managed through a process of ongoing identification, measurement, mitigation, reporting and monitoring. The Group's exposure can be broadly categorized into the following risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

The Group enhances its risk management culture and practices proactively as a continuous process. The Bank has implemented the Basel II Internal Ratings Based (IRB) Approach internally and uses the approach for internal risk management; while regulatory guidelines are awaited to complete the process for use in regulatory capital calculations.

The Bank follows both the IRB Approach and Sandardized Approach for its risk and capital management. The Internal Capital Adequacy Assessment Process (ICAAP) covers the approaches and a detailed report is submitted to the UAE Central Bank on an annual basis after being approved by the Board. Work is also in progress for complying with Basel III requirements as they become applicable. The Group is always committed to the implementation of best practices and governance standards.

Notes to the consolidated financial statements (continued)

5. Financial risk management *(continued)*

(b) Governance and risk management framework

This note presents broad information about the Group's objectives, policies and processes for identifying, measuring, reporting and mitigating the above mentioned risks and the Group's management of capital. This note also covers enhanced disclosures relating to Pillar 3 (Market Discipline) of Basel II. The Board of Directors has overall responsibility for the establishment and oversight of the Group's enterprise risk management framework. The Board sets the overall risk appetite and strategy in consultation with the senior management and approves all principal governance committee charters, policies and guidelines to manage the above mentioned risks. The Board has established committees, as detailed in the Corporate Governance Report, to enhance the oversight mechanism to carry out its responsibilities effectively.

Enterprise-wide Risk Management and Internal Control Framework: The Board set the risk appetite, policies and the enterprise-wide risk management and internal control framework. The Bank follows a three lines of defense structure with management control being the first, independent risk management oversight being the second and an independent audit assurance being the third. The principal responsibility for the execution and implementation of policies and procedures and internal controls rests with respective functions and departments in accordance with the approved framework. An independent Risk Management function carries out the oversight through independent review and approval of procedures, spot checks to assess adequacy of internal controls and meeting of compliance requirements, operational risk management, credit review and middle office activities for market and liquidity risks. An independent internal and external audit process provides an independent assurance to the Board.

The Group follows the Board approved whistle blowing policy where staff, customers and other stakeholders of the Bank can independently raise matters to the Chief Executive Officer (CEO), the Head of Internal Audit or the Board Secretary. The Group through the Grievance and Disciplinary Committee (GDC) comprising Head of Internal Audit, Head of Human Resources and Head of Legal, and reporting to the CEO promotes transparent and fair dealings among staff.

The role of the Internal Audit Function within the Group is to provide independent and objective assurance that the process for identifying, evaluating and managing significant risks faced by the Group is appropriate and effectively applied. In addition, it also provides an independent check on the compliance with laws and regulations and measuring compliance with the Group's policies and procedures. Additionally, Internal Audit provides consulting services which are advisory in nature, and are generally performed at the specific request of the Senior Management. It is led by the Head of Internal Audit who reports to the Audit Committee of the Board, with administrative reporting line to the CEO. To perform its role effectively, Internal Audit has organizational independence from management, to enable unrestricted evaluation of management activities and personnel.

(c) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers and amounts due from banks and investments.

The Group is mainly engaged in Corporate and Institutional Banking business which comprises the majority of loans and advances of the Group and has also been growing its Retail Banking loans and advances. The credit is assessed based on specific guidelines which are reviewed and approved by the Board Risk Committee and the Board.

5. **Financial risk management** *(continued)*

(c) **Credit risk** *(continued)*

Management of credit risk

An independent Credit Department is responsible for reviewing, recommending and approving underwriting proposals and together with Risk Management Department is responsible for managing credit risk and formulation of credit policies in line with strategic objectives, risk appetite, business growth, regulatory requirements and risk management standards. An independent loan review function within Risk Management Division is responsible for loan review, on a post facto and sample basis, to assess compliance with underwriting approvals according to the policies and review the underwriting standards of the Group. Further, Risk department is also responsible for undertaking a portfolio review of credit risks. Independent departments are responsible for documentation, collateral management, custody and limit management.

The credit risk management framework includes:

- Risk appetite and policy setting;
- An authorization structure and limits for the approval and renewal of credit facilities;
- Review and assessment of credit applications in line with credit policies and within the authorization and limit structure. Renewals of facilities are subject to the same review process;
- Diversification and limiting concentrations of exposure to counterparties, geographies, industries and asset classes;
- Reviewing compliance, on an ongoing basis, with agreed exposure limits relating to counterparties, industries, countries and products and reviewing limits in accordance with the risk management strategy and market trends;
- Remedial management and recoveries; and
- Stress testing.

Concentration risk

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political, or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentration of risk, Group risk policies and procedures include specific guidelines to ensure maintenance of diversified portfolios through a series of country, counterparty, industry, sector and product limits.

Credit exposures to individual customers or customer groups are controlled through a tiered hierarchy of delegated approval authorities. Approval is required from the UAE Central Bank for exposures which are likely to exceed single counterparty / group, keeping in view the regulatory capital base, in accordance with the regulations of monitoring of large exposure limits issued by the UAE Central Bank.

The Group monitors concentrations of credit risk by industry, sector and geographic location. The Group has further defined portfolio caps for its specialized businesses like Marine Finance and Precious Metal Unit.

The following tables illustrate the sectoral, geographical and currency wise analysis of loans and advances. Information about other areas of credit risk are included in the respective notes to the consolidated financial statements.

Notes to the consolidated financial statements (continued)

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Sector analysis

An analysis of sector concentrations of credit risk arising from loans and advances at 31 December 2014 and 2013 is shown below:

	Loans and advances							
2014	Funded	Unfunded	Gross exposure	Impaired loans	Specific provision	Write-off (funded)	Past due but not impaired	
							Upto 90 days	Above 90 days
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Trade	7,118,474	1,765,931	8,884,405	126,715	100,966	12,212	63,992	-
Construction	772,579	3,420,039	4,192,618	90,318	35,676	4,581	22,418	-
Government	500,763	3,596	504,359	-	-	-	189	-
Manufacturing	3,633,788	769,511	4,403,299	105,557	95,526	13,386	34,691	-
Financial institutions	532,561	145,372	677,933	87,626	43,050	-	-	-
Service industries	1,882,421	147,326	2,029,747	204,826	110,654	4,247	2,341	-
Real estate	1,407,068	-	1,407,068	3,642	-	-	2,575	-
Individuals	1,405,659	124,559	1,530,218	142,974	45,046	2,009	5,141	-
Gross amount	17,253,313	6,376,334	23,629,647	761,658	430,918	36,435	131,347	-

	Loans and advances							
2013	Funded	Unfunded	Gross exposure	Impaired loans	Specific provision	Write-off (funded)	Past due but not impaired	
							Upto 90 days	Above 90 days
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Trade	5,934,874	1,456,217	7,391,091	131,227	103,296	46,188	55,979	-
Construction	629,250	3,280,379	3,909,629	75,876	20,695	2,183	26,539	-
Government	216,941	227	217,168	-	-	-	20	-
Manufacturing	2,920,009	842,293	3,762,302	55,720	48,892	10,586	47,076	-
Financial institutions	525,750	113,306	639,056	91,908	46,021	53,443	-	-
Service industries	1,970,710	174,164	2,144,874	195,217	100,247	4,253	4,189	-
Real estate	1,212,679	-	1,212,679	19,708	11,855	-	951	-
Individuals	1,269,533	66,200	1,335,733	119,010	53,135	27,843	22,854	-
Gross amount	**14,679,746**	**5,932,786**	**20,612,532**	**688,666**	**384,141**	**144,496**	**157,608**	**-**

Notes to the consolidated financial statements (continued)

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Geographic location analysis

Based on the location of the borrower, an analysis of geographic concentrations of credit risk arising out of loans and advances at 31 December 2014 and 2013 is shown below:

2014	Funded	Unfunded	Gross exposure	Impaired loans	Specific provision	Write-off (funded)	Past due but not impaired	
							Upto 90 days	Above 90 days
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Within UAE	16,916,560	6,299,843	23,216,403	673,449	387,822	36,435	131,347	-
GCC countries	234,439	12,290	246,729	87,493	42,917	-	-	-
Other	102,314	64,201	166,515	716	179	-	-	-
Total	17,253,313	6,376,334	23,629,647	761,658	430,918	36,435	131,347	-

2013	Funded	Unfunded	Gross exposure	Impaired loans	Specific provision	Write-off (funded)	Past due but not impaired	
							Upto 90 days	Above 90 days
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Within UAE	14,347,388	5,865,082	20,212,470	595,846	337,993	91,052	156,018	-
GCC countries	194,619	22,326	216,945	91,775	45,887	53,444	-	-
Other	137,739	45,378	183,117	1,045	261	-	1,590	-
Total	**14,679,746**	**5,932,786**	**20,612,532**	**688,666**	**384,141**	**144,496**	**157,608**	**-**

Currency wise analysis

The Group's credit exposure by currency type is as follows:

	2014			2013		
	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Funded AED'000	Unfunded AED'000	Gross exposure AED'000
AED	14,242,949	4,538,438	18,781,387	12,377,617	4,085,875	16,463,492
USD	2,264,610	1,553,021	3,817,631	1,729,591	1,571,504	3,301,095
EUR	63,195	124,651	187,846	46,250	196,425	242,675
GBP	-	15,683	15,683	3,070	12,100	15,170
XAU	668,973	-	668,973	444,235	-	444,235
Others	13,586	144,541	158,127	78,983	66,882	145,865
Total	17,253,313	6,376,334	23,629,647	**14,679,746**	**5,932,786**	**20,612,532**

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of the counterparty to honour its obligations to deliver cash, securities or other assets as contractually due. Any delays in settlement are monitored and quantified as part of the Group's Credit Risk Management.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations. Settlement limits form part of the credit approval / limit monitoring process. Acceptance of settlement risk on free settlement trades requires transaction specific or counterparty specific approvals in accordance with the approved credit framework.

Risk mitigation, collateral and credit enhancements

The Group manages credit exposure by obtaining security where appropriate, and in certain cases, the Group may also close out transactions or assign them to other counterparties to mitigate credit risk.

The amount and type of collateral depends on assessments of the credit risk of the counterparty. The types of collateral mainly include cash, guarantees, pledge over listed shares and mortgage and liens over properties or other securities over assets. Pledged interests over vehicles, ships and equipment are also obtained. Collateral generally is not held against non-trading investments and due from banks and financial institutions.

Management monitors the market value of collateral, and wherever necessary the Group requests additional collateral in accordance with the underlying agreement, and considers collateral obtained during its review of the adequacy of the allowance for impairment losses.

Estimates of fair value are generally assessed on a periodic basis in accordance with the respective credit policies. An estimate of fair value of collateral and other security enhancements held against the loan portfolio is as follows:

Notes to the consolidated financial statements (continued)

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Risk mitigation, collateral and credit enhancements (continued)

Particulars	Loans and Advances		Collaterals	
	2014	2013	2014	2013
	AED'000	AED'000	AED'000	AED'000
Individually impaired				
Pledged deposits	34,831	30,679	2,438	5,583
Debt / Equity securities	80,605	83,258	80,605	78,141
Property	137,611	125,593	124,111	105,496
Others	508,611	449,136	20,000	20,000
Gross amount	761,658	688,666	227,154	209,220
Impairment loss	(430,918)	(384,141)	-	-
Carrying amount	330,740	304,525	227,154	209,220
Past due but not impaired				
Pledged deposits	70,211	83,187	6,922	16,487
Debt / Equity securities	315	-	315	-
Property	35,136	12,306	30,291	7,668
Others	25,685	62,115	-	-
Gross amount	131,347	157,608	37,528	24,155
Impairment loss	-	-	-	-
Carrying amount	131,347	157,608	37,528	24,155
Neither past due nor impaired				
Pledged deposits	5,776,576	5,379,827	1,258,371	1,278,583
Debt / Equity securities	82,727	73,604	82,727	73,604
Property	3,484,956	2,111,490	2,763,258	1,661,762
Others	7,016,049	6,268,551	-	-
Gross amount	16,360,308	13,833,472	4,104,356	3,013,949
Collective impairment provision	(493,947)	(430,908)	-	-
Carrying amount	15,866,361	13,402,564	4,104,356	3,013,949
Total	16,328,448	13,864,697	4,369,038	3,247,324
Renegotiated exposure	998,620	1,125,022	248,301	322,929
Contingent liabilities				
Pledged deposits	3,526,666	3,498,740	382,496	420,527
Others	2,849,668	2,434,046	215,673	140,723
Total	6,376,334	5,932,786	598,169	561,250

Notes to the consolidated financial statements (continued)

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Risk mitigation, collateral and credit enhancements (continued)

Past due but not impaired portfolio ageing is as follows:

	2014	2013
	AED'000	AED'000
Less than 1 month	97,090	106,691
1 month to 3 months	34,257	50,917
Total	131,347	**157,608**

Credit quality

The credit quality of the loans and advances portfolio is managed by the Group using internal credit ratings comprising 22 grades. The risk rating system is used as a credit risk management tool whereby any risks taken on the Group's books are rated against a set of predetermined standards which also complies with the UAE Central Bank guidelines.

The Group's Credit Risk Rating Methodology follows the categorization of credit risk assets under the following risk classification / grading system:

Risk Grade	2014	2013
	AED'000	AED'000
Neither past due nor impaired / Past due but not impaired (RR 1-19)		
Grades 1-18: Performing or normal	15,729,691	13,265,119
Grade 19: Other Loans Especially Mentioned (OLEM)	761,964	725,961
	16,491,655	**13,991,080**
Individually impaired (RR 20-22)		
Grade 20: Sub-standard	90,023	73,999
Grade 21: Doubtful	321,577	292,882
Grade 22: Loss	350,058	321,785
	761,658	**688,666**
Total	17,253,313	**14,679,746**

Impaired loans and advances

Impaired loans are those financial assets where it is probable that the Group will be unable to collect all principal and interest due according to the contractual terms of the loan agreements.

Past due but not impaired loans

Loans and advances are recognized as past due but not impaired where contractual interest or principal payments are past due but the Group believes that the assets are not impaired on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Notes to the consolidated financial statements (continued)

5. Financial risk management *(continued)*

(c) Credit risk *(continued)*

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been rescheduled / restructured due to deterioration in the borrower's financial position and where the Group has made concessions that it would not otherwise consider. These loans are not delinquent; however, impairment is recognized in accordance with IAS 39 to represent the benefits foregone by the Group. The impairment recognized will be gradually unwound to the consolidated statement of income in a manner that corresponds to the performance of the account in line with the restructuring terms.

Allowances for impairment

On a monthly basis, the Group establishes an allowance for impairment losses that represents its estimate of losses in the loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for groups of homogenous assets in respect of losses that may have been incurred but have not been identified on loans subject to individual assessment for impairment and general provision in line with the UAE Central Bank's requirements. The methods of assessment of allowances for impairment have been summarized in note 4.

As part of the IRB approach, the Bank has designed and implemented an independently validated master credit rating scale, corporate banking rating scale and business banking rating scale linked to the observed historical defaults in the Bank's credit portfolio through the cycle which has determined the mean probability of default for the credit portfolio and have assigned individual probabilities of default to each credit risk grade. Together with the Exposure at Default and Loss Given Default, the Bank determines the Expected Loss of each of its corporate and commercial borrower. In order to monitor the risk migration of its borrowers, the Bank computes the one year credit default migration through transitional matrices while ensuring that the potential impact of the one year default is adequately covered by the overall credit provisioning level and the capital adequacy level.

Write-off policy

The Group writes off loan balances (and any related allowances for impairment losses) when it has generally exhausted all possible efforts for collection and determines that the loans are no longer collectible.

(d) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Group's approach to managing liquidity is to maintain, as far as possible, sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or putting the Group's reputation at risk.

Treasury is entrusted with the responsibility of ensuring compliance with both statutory liquidity requirements and internal risk limits. All liquidity risk management policies and procedures are subject to review and approval by Asset and Liability Committee (ALCO), Management Risk Committee (RC), Risk Committee of the Board and the Board.

Notes to the consolidated financial statements (continued)

5. Financial risk management *(continued)*

(d) Liquidity risk *(continued)*

Management of liquidity risk *(continued)*

The Group maintains a portfolio of short-term liquid assets, largely made up of cash and balances with the UAE Central Bank representing **17.5%** (2013: 18.8%) of total assets which also include mandatory cash reserve deposits with the UAE Central Bank. Short-term liquid assets also include investment grade marketable securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained both under normal conditions and simulated stress scenarios. **14.7%** (2013: 16.7%) of the Group's customer deposits are pledged.

The Group uses lending to stable resource ratio of 1:1 as stipulated by the UAE Central Bank as one of the key risk indicators and monitors this on a regular basis. The Group uses more prudent internal lending to stable resources ratio measure of 0.925:1 as a trigger point for action planning.

The Group manages its concentration of deposits by continuing to widen the customer base and sources of liabilities and setting in place caps on individual size and varying maturities.

The Bank has put in place liquidity action plan which is updated on a monthly basis and presented to ALCO to monitor and review achievement of short and long term liquidity strategies and thresholds.

Liquidity risk appetite is prudently and proactively reviewed taking into consideration the market events and relevant risk management standards. Adherence to the longer stress period is being achieved through reliance on both higher quality and adequate level of liquid assets. The Group monitors 30 days stress test under two scenarios of local market crisis and one / two notch downgrade of NBF Issuer Credit Rating in line with its liquidity risk appetite. The Bank has also defined a contingency funding plan to manage any liquidity crisis situation.

As part of the ICAAP, the Bank assesses the impact on capital adequacy of liquidity risk including concentrations by carrying out stress tests.

The table below shows the Group's assets and liabilities and commitments on the basis of their earliest possible contractual maturity and / or expected date of settlement or realization. For example, demand deposits from customers are expected to maintain a stable balance and term deposits are often rolled over on maturity. Loans and advances are partly revolving in nature. Cash and balances with the UAE Central Bank include certificates of deposit which are readily convertible into cash under repurchase arrangements with the UAE Central Bank. Investments include available-for-sale investments which can be redeemed before their contractual maturity.

Notes to the consolidated financial statements (continued)

5. **Financial risk management** *(continued)*

(d) **Liquidity risk** *(continued)*

Management of liquidity risk *(continued)*

At 31 December 2014	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'0000	Over 1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Cash and balances with the UAE Central Bank	1,786,469	600,000	900,000	810,000	200,000	-	4,296,469
Due from banks and financial institutions	703,784	643,840	397,530	166,542	1,196	-	1,912,892
Investments	18,999	1,104	540	-	541,363	36,130	598,136
Loans and advances	3,660,670	3,524,946	1,946,758	1,194,859	4,660,402	1,340,813	16,328,448
Property and equipment, capital work-in-progress and intangible assets	-	-	-	-	-	124,931	124,931
Other assets	299,862	724,917	239,291	54,004	7,364	-	1,325,438
Total assets	6,469,784	5,494,807	3,484,119	2,225,405	5,410,325	1,501,874	24,586,314
Due to banks	396,855	254,782	29,198	-	-	-	680,835
Customer deposits	7,668,382	3,130,952	2,631,591	2,579,699	1,921,012	95	17,931,731
Term borrowings	-	112,020	-	293,840	367,300	400,000	1,173,160
Other liabilities	299,862	835,640	239,291	54,004	7,364	-	1,436,161
Total shareholders' equity	-	-	-	-	-	3,364,427	3,364,427
Total liabilities and shareholders' equity	8,365,099	4,333,394	2,900,080	2,927,543	2,295,676	3,764,522	24,586,314
On Balance Sheet Gap	(1,895,315)	1,161,413	584,039	(702,138)	3,114,649	(2,262,648)	-
Cumulative Gap	(1,895,315)	(733,902)	(149,863)	(852,001)	2,262,648	-	-
At 31 December 2013							
Total Assets	6,405,836	4,404,087	2,738,886	2,058,113	4,296,707	1,554,591	21,458,220
Total liabilities and shareholders' equity	6,271,534	4,140,684	3,643,014	2,695,793	1,277,591	3,429,604	21,458,220
On Balance Sheet Gap	134,302	263,403	(904,128)	(637,680)	3,019,116	(1,875,013)	-
Cumulative Gap	134,302	397,705	(506,423)	(1,144,103)	1,875,013	-	-

The table below incorporates guarantees, letters of credit and notional amounts of derivative financial instruments, entered into by the Group, outstanding at the date of consolidated statement of financial position, analyzed by the earliest period these can be called. The notional amount is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are not indicators of either the market risk or the credit risk. The amounts set out below do not represent expected cash flows.

Notes to the consolidated financial statements (continued)

5. **Financial risk management** *(continued)*

(d) **Liquidity risk** *(continued)*

Management of liquidity risk *(continued)*

At 31 December 2014	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 year to 5 years AED'000	Over 5 years AED'000	Total AED'000
Guarantees	5,035,042	-	-	-	-	-	5,035,042
Letters of credit	161,977	797,351	231,764	137,356	12,844	-	1,341,292
Forward foreign exchange contracts	1,446,599	1,083,229	1,323,658	1,892,367	-	-	5,745,853
Currency options	1,807	35,711	442,757	3,419,809	-	-	3,900,084
Interest rate derivatives	-	185,409	183,650	4,445	1,302,494	805,932	2,481,930
Commodity derivatives	2,163	444,096	2,434	79,997	-	-	528,690
	6,647,588	2,545,796	2,184,263	5,533,974	1,315,338	805,932	19,032,891
At 31 December 2013							
Guarantees	4,613,706	-	-	-	-	-	4,613,706
Letters of credit	197,215	766,573	265,010	81,510	8,772	-	1,319,080
Forward foreign exchange contracts	1,426,905	1,276,392	625,424	220,412	-	-	3,549,133
Currency options	-	54,226	679,027	1,800,041	-	-	2,533,294
Interest rate derivatives	1,010	9,182	2,667	22,482	820,069	623,868	1,479,278
Commodity derivatives	-	24,831	1,948	56,306	-	-	83,085
	6,238,836	**2,131,204**	**1,574,076**	**2,180,751**	**828,841**	**623,868**	**13,577,576**

The positive / negative fair values of derivative financial instruments, entered into by the Group, at the reporting date are depicted below:

	2014			**2013**		
	Positive fair value AED'000	Negative fair value AED'000	Net AED'000	**Positive fair value AED'000**	**Negative fair value AED'000**	**Net AED'000**
Derivatives						
Forward foreign exchange contracts	20,445	13,692	6,753	13,894	12,936	958
Currency options	32,112	32,112	-	17,613	17,613	-
Interest rate derivatives	10,846	6,403	4,443	10,287	9,910	377
Commodity derivatives	18,634	20,728	(2,094)	502	304	198
	82,037	72,935	9,102	**42,296**	**40,763**	**1,533**

5. Financial risk management *(continued)*

(e) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates, commodity prices and credit spreads will affect the Group's income or the value of its holdings of financial instruments.

Management of market risks

The Group distinguishes its exposure to market risk between trading and non-trading portfolios. Trading portfolio includes positions arising from market-making, proprietary positions and other marked-to-market positions so designated. Non-trading portfolio includes positions other than those with the trading intent that arises from interest rate management of the Group's assets and liabilities and available-for-sale and held-to-maturity investments.

The Group has well-defined policies, procedures and trading limits in place to ensure oversight of Treasury's day-to-day operations, in accordance with the Board's defined risk appetite. These are reviewed periodically to ensure that they remain in line with the Group's general market risk appetite. The Group manages market risk positions within the risk management limits set out by the Board. Overall responsibility for monitoring market risk is vested with the RC.

Investment price risk

The risk originates primarily from the investment portfolio of the Group which is managed on a fair value basis. The Group manages the risk through diversification of investments in terms of counterparty, industry and country. The Group monitors and reviews portfolio performance on a monthly basis.

ALCO reviews sensitivity of investment price volatility on annualized income. The stop loss limit of 15% is followed unless ALCO and RC believe a different level is appropriate, when Board approval is obtained.

The table below shows the impact of decline in fair value of investments by 10% on net income and equity for 2014 and 2013:

	Assumed level of change %	Impact on net income and equity 2014 AED '000	Impact on net income and equity 2013 AED '000
Investments carried at fair value through the income statement			
Reference benchmarks:			
Fair value of managed funds	10%	958	1,146

	Assumed level of change %	Impact on equity 2014 AED '000	Impact on equity 2013 AED '000
Available for sale investments			
Reference benchmarks:			
Quoted debt securities	10%	47,381	46,031
Investments in listed equity	10%	116	94

5. Financial risk management *(continued)*

(e) Market risk *(continued)*

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. The Board of Directors has set limits on positions by currencies which are closely monitored. Exceptions, if any, are only allowed by seeking prior approval of ALCO and RC supported by a business case and ratification by the Board. During the year, the Group complied with the open position limits and exception approval process.

The Group carries out sensitivity analysis on the basis of 5% shift in exchange rate and analyzes their impact on annualized exchange income. ALCO reviews currency limits based on these sensitivities.

The UAE currency is pegged to the US Dollar and this is considered while setting the limits and analyzing the sensitivity impact.

At 31 December, the Group's open positions [long / (short)] and potential impact of a shift in exchange rate on the statement of income are as follows:

Currency	USD	EUR	Others
Open position			
2014 (AED in 000's)	**215,929**	**1,135**	**16,402**
2013 (AED in 000's)	224,390	865	6,198
Assumed change in exchange rates	5%	5%	5%
Impact on exchange income from increase in exchange rates:			
2014 (AED in 000's)	**10,796**	**57**	**820**
2013 (AED in 000's)	11,220	43	310
Impact on exchange income from decrease in exchange rates:			
2014 (AED in 000's)	**(10,796)**	**(57)**	**(820)**
2013 (AED in 000's)	(11,220)	(43)	(310)

At 31 December 2014, the impact on exchange income due to change in exchange rate by 5% is **±16.5%** (2013: ±18.5%). Excluding the impact of US$ open position, the impact is **±1.2%** (2013: ±0.6%).

Notes to the consolidated financial statements (continued)

5. **Financial risk management** *(continued)*

(e) **Market risk** *(continued)*

Interest rate risk

The principal risk to which financial assets and liabilities are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates.

The Group's treasury manages interest rate risk principally through monitoring interest rate gaps and matching the interest re-pricing profile of financial assets and liabilities. The Group's long term financial assets and liabilities are priced generally on a floating rate basis, which tracks the changes in market interest rates. Long term loans that are priced on a fixed rate basis constitute **11.2%** (2013: 10.1%) of the total loan portfolio.

The Group measures the interest rate sensitive gaps across tenors considering the availability of a contractual ability to re-price all its assets and liabilities. The sensitivity analysis i.e. the impact of a parallel shift in interest rate curves on net interest income (NII) and equity is ascertained and presented to ALCO for review on a monthly basis. Strategies and actions required to mitigate this risk, if any, are approved and monitored by ALCO and executed by Treasury. The Group carries out sensitivity analysis on the net interest income for one year assuming changes (whether increase or decrease) in interest rates. An analysis of the Group's sensitivity to an increase or decrease in market interest rates based on the financial assets and financial liabilities, denominated in various currencies, held at 31 December, assuming no asymmetrical movement in yield curves and a constant statement of financial position, is as follows:

Currency	**AED**	**USD**	**EUR**	**Others**	**Total**
Assumed change in interest rates	±100 bps	±100 bps	±100 bps	±100 bps	±100 bps
Impact on net interest income from increase in interest rates:					
2014 (AED in 000's)	**35,673**	**10,809**	**1,300**	**444**	**48,226**
2013 (AED in 000's)	30,686	8,218	1,363	1,260	41,527
Impact on net interest income from decrease in interest rates:					
2014 (AED in 000's)	**(24,808)**	**(11,836)**	**(1,026)**	**2,390**	**(35,279)**
2013 (AED in 000's)	(22,316)	(5,566)	(731)	(1,017)	(29,630)

An impact of 5% or higher on total shareholders' equity is considered as a trigger event based on which an action plan is agreed. At 31 December 2014, the impact of 25 bps, 50 bps and 100 bps shift analysis on net interest and regulatory capital is as follows:

Notes to the consolidated financial statements (continued)

5. Financial risk management *(continued)*

(e) Market risk *(continued)*

Interest rate risk *(continued)*

Impact on net interest income	2014 (AED in 000's)		2013 (AED in 000's)	
bps	Upward shift	Downward shift	Upward shift	Downward shift
25	1.77%	-1.76%	1.78%	-1.78%
50	3.54%	-3.17%	3.57%	-3.33%
100	7.08%	-5.18%	7.13%	-5.09%

Impact on regulatory capital	2014 (AED in 000's)		2013 (AED in 000's)	
bps	Upward shift	Downward shift	Upward shift	Downward shift
25	0.31%	-0.30%	0.29%	-0.29%
50	0.61%	-0.55%	0.59%	-0.55%
100	1.22%	-0.89%	1.18%	-0.84%

The Group also conducts interest rate stress testing based on modified duration approach. The results of the shift analysis are reviewed monthly by ALCO, which along with Marketing Committee (MC) has the overall responsibility for managing pricing policy.

The Group's interest rate gap position on financial assets and liabilities based on the earlier of contractual re-pricing or maturity date is as follows:

At 31 December 2014	Less than 1 month AED'000	1 month to 3 months AED'000	Over 3 months to 6 months AED'000	Over 6 months to 1 year AED'000	Over 1 to 5 year s AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Cash and balances with the UAE Central Bank	250,000	600,000	900,000	810,000	200,000	-	1,536,469	4,296,469
Due from banks and financial institutions	523,896	643,840	397,530	170,314	1,196	-	176,116	1,912,892
Investments	100,284	137,659	-	-	240,087	109,148	10,958	598,136
Loans and advances	6,101,875	5,893,712	1,770,700	736,446	1,197,681	789,046	(161,012)	16,328,448
Other assets	-	-	-	-	-	-	1,301,488	1,301,488
Total financial assets	6,976,055	7,275,211	3,068,230	1,716,760	1,638,964	898,194	2,864,019	24,437,433
Due to banks	386,788	254,783	29,197	-	-	-	10,067	680,835
Customer deposits	3,940,608	3,122,703	2,619,519	2,579,794	1,915,567	95	3,753,445	17,931,731
Term borrowings	293,840	787,495	91,825	-	-	-	-	1,173,160
Other liabilities	-	-	-	-	-	-	1,364,882	1,364,882
Total financial liabilities	4,621,236	4,164,981	2,740,541	2,579,794	1,915,567	95	5,128,394	21,150,608
Interest rate sensitivity gap								
On-balance Sheet	2,354,819	3,110,230	327,689	(863,034)	(276,603)	898,099	(2,264,375)	
Off-balance Sheet	552,990	1,580,037	164,243	-	184,660	-	10,174,627	
Cumulative	2,907,809	7,598,076	8,090,008	7,226,974	7,135,031	8,033,130	15,943,382	
At 31 December 2013								
Cumulative interest rate sensitivity gap	3,302,121	5,682,605	5,161,867	4,446,006	5,159,758	5,812,735	10,580,879	

5. **Financial risk management** *(continued)*

(e) **Market risk** *(continued)*

Interest rate yields

The average earning on placements and balances with banks was **0.61%** (2013: 0.48%), on loans and advances was **5.38%** (2013: 5.68%) and on investments was **1.78%** (2013: 1.98%). The average cost of customer deposits was **1.25%** (2013: 1.51%) and of due to banks and term borrowings was **1.91%** (2013: 2.72%).

(f) **Operational risk**

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks, such as those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour. Operational risks arise from all of the Group's operations and are faced by all business entities. Potential loss may be in the form of financial loss or other damages, for example loss of reputation and public confidence that will impact the Group's credibility and ability to do business.

The Group's objective in managing operational risk is to balance avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness.

The Group has defined policies and procedures which are followed to manage operational risk through the Operational Risk and Compliance Committee (ORCC) forum. Compliance with Group standards is supported by a programme of periodic risk and internal control assessments and reviews undertaken by Internal Audit and Operational Risk and Compliance. The results of reviews are discussed with the businesses and functional units to which they relate and regular reports are provided to the Internal Audit, RC, Risk Committee of the Board and the Board.

The regulatory risk capital charge allocation with respect to Operational Risk is computed based on The Standardized Approach. However, the Bank, as part of the ICAAP, computes the risk capital charge allocation for Pillar II risks related to Strategic Risk, Reputational Risk, Residual Risk and Settlement Risk through an internally designed but externally independently validated scorecard approach which encompasses a broad range of best industry practices including the regulatory requirements and guidance issued from time to time, locally and internationally.

(g) **Management of capital**

The Group's lead regulator, the UAE Central Bank, sets and monitors regulatory capital requirements. The requirements of capital for subsidiaries, NBF Financial Services FZC, NBF Capital Limited and NBF Trade Services (HKG) Limited, are determined by the Free Zone Authority of Fujairah, DFSA and Hong Kong Companies Registry respectively.

The Group's objectives and strategy when managing capital are:

- To maintain adequate level and achieve an optimum structure for the Group's capital commensurate to its strategy, risk profile and relative positioning in the market;
- To ensure compliance with the regulatory requirements;
- To efficiently allocate capital to various businesses leading to enhanced shareholder value and optimal risk reward;
- To ensure effective internal organisation and processes and to assess and manage material risks on an ongoing basis; and
- To provide for any unforeseen losses.

5. Financial risk management *(continued)*

(g) Management of capital *(continued)*

The Group's capital management is carried out centrally and determines the level of risk-weighted asset growth and the optimal amount and mix of capital required to support planned business growth.

The Group and its subsidiaries have complied with all externally imposed capital requirements throughout the year.

In implementing capital requirements, the Group calculates its capital adequacy ratio in accordance with the guidelines issued by the UAE Central Bank dated 17 November 2009. The UAE Central Bank introduced the implementation of Basel II with Standardized Approach which the Group follows while at the same time has developed and implemented risk management measurement tools and robust practices to become a Basel II Foundation Internal Rating Based Approach (FIRB) compliant bank. The UAE Central Bank places considerable emphasis on the ICAAP and the Group has developed an economic capital model to comply with the UAE Central Bank requirements.

The Group's regulatory capital adequacy ratio is set by the UAE Central Bank which is 12% analyzed in two tiers, of which Tier 1 capital adequacy ratio must not be less than 8%. The Group has complied with its capital adequacy ratio 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, statutory reserve, special reserve, retained earnings and Tier 1 capital notes. In line with the approval of the UAE Central Bank, during the year, the Bank has included current year profit excluding proposed cash dividends in its capital base and capital adequacy calculations and accordingly comparatives have been aligned; 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 sub-ordinated facilities. The following limits have been applied for tier 2 capital:
    - Total tier 2 capital shall not exceed 67% of tier 1 capital;
    - Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
    - Collective impairment provision shall not exceed 1.25% of credit risk weighted assets.

5. Financial risk management *(continued)*

(g) Management of capital *(continued)*

	2014 AED'000	2013 AED'000
Tier 1 Capital		
Share capital	1,100,000	1,100,000
Statutory reserve	403,126	353,647
Special reserve	298,126	248,647
Retained earnings	981,364	691,604
Tier 1 capital notes	500,000	500,000
Total Tier 1	3,282,616	**2,893,898**
Tier 2 Capital		
Available-for-sale revaluation reserve	(689)	(1,864)
Subordinated facilities (note 15.3)	400,000	400,000
Collective impairment provision	262,253	230,171
Total Tier 2	661,564	**628,307**
Deductions from Tier 1 and Tier 2 Capital		
Investments in unconsolidated subsidiaries	-	-
Total capital base (a)	3,944,180	3,522,205

Risk weighted assets	2014 Risk-weighted equivalent AED'000	2013 Risk-weighted equivalent AED'000
Credit risk	20,980,215	17,586,380
Market risk	8,688	5,592
Operational risk	1,424,312	821,706
Total risk weighted assets (b)	22,413,215	18,413,678
Capital adequacy ratio (a) / (b) - %	17.60	19.13

The Group has prepared an ICAAP document and submitted to the UAE Central Bank for the years ended December 2012 and December 2013. The Group's ICAAP report includes assessment and review of the following, keeping in mind a forward-looking approach:

- Risk management framework to assess, measure, monitor and control all the material elements of risks;
- Risk profile and business strategy;
- Capital required to cover all material risks;
- Stress testing risks to assess capital requirement under stressed conditions; and
- Capital planning and budgeting.

5. Financial risk management *(continued)*

(g) Management of capital *(continued)*

Risk weighted assets *(continued)*

Apart from credit, market and operational risk covered in Pillar I, the ICAAP report covers other material risks like liquidity risk, concentration risk, interest rate risk in banking book, strategic risk, residual risk, reputational risk and settlement risk. The ICAAP report also covers the stress testing framework for credit, market, liquidity and interest rate risk on banking book. The Pillar II CAR for the year ended 31 December 2014 was **15.22%** (2013: 17.32%). If the bank were to fully adopt the IRB approach, its capital adequacy would improve to **23.17%.**

Risk weights for credit risk

The Group has a diversified funded and unfunded credit portfolio. The exposures are classified as per the approach mentioned under the Central Bank of UAE Basel II Capital Adequacy Framework covering the Standardized Approach for credit risk. The descriptions of the counterparty classes along with the risk weights used to derive the risk weighted assets are as follows:

Claims on sovereigns

These pertain to exposures to governments and their central banks. Claims on central banks and sovereigns are risk weighted in accordance with their ratings from acceptable External Credit Assessment Institutions (ECAIs), except that, for all GCC sovereigns a 0% weight has been applied.

Claims on public sector entities (PSEs)

Domestic currency claims on GCC non-commercial PSE are treated as claims on GCC sovereigns if their Central Bank or monetary authority treats them as such. Foreign currency claims on GCC PSE are treated one grade less favourable than its sovereign i.e. 20% risk weight are applied.

Claims on other foreign non-commercial PSE are treated one grade less favourable than its sovereign. Claims on commercial PSE are treated as claims on corporate.

Claims on multilateral development banks (MDBs)

All MDBs are risk weighted in accordance with the respective credit rating except for those members listed in the World Bank Group which are risk weighted at 0%.

Claims on banks

Claims on banks are risk weighted based on the ratings assigned to them by external rating agencies, however, short term claims denominated in local currency are assigned more favourable risk weighting.

Claims on corporate portfolio

Claims on corporate are risk weighted in accordance with ratings from acceptable ECAIs. Risk weightings for unrated corporate claims are assigned at 100%.

Claims on regulatory retail exposures

Retail claims that are included in the regulatory retail portfolio are assigned risk weights of 75%, if it meets the criteria mentioned in the Central Bank of UAE Basel II guidelines. Claims which do not meet the criteria are assigned risk weights of 100%.

5. **Financial risk management** *(continued)*

(g) **Management of capital** *(continued)*

Risk weights for credit risk *(continued)*

Claims secured by residential property

A preferential risk weight of 35% is applied on claims that do not exceed AED 10 million and are secured by residential property with LTV of up to 85%. Other claims secured on residential property are risk weighted at 100%.

Claims secured by commercial property

100% risk weight is applied on claims secured by commercial property.

Past due exposures

The unsecured portion of any loan (other than a qualifying residential mortgage loan) that is past due for more than 90 days, net of specific provisions (including partial write-offs), is risk weighted as follows:

- 150% risk weight where specific provisions are less than 20% of the outstanding amount of the loan; and
- 100% risk weight where specific provisions are equal to or greater than 20% of the outstanding amount of the loan.

Equity portfolios

Equity in banking book is risk weighted at 150%.

Other exposures

These are risk weighted at 100%.

Credit risk and risk weights

	On & off balance sheet	Credit risk mitigation (CRM)			Risk-weighted assets
2014 (AED'000)	Gross outstanding	Exposure before CRM	CRM	After CRM	
Claims on sovereigns	4,340,802	4,340,802	-	4,340,348	-
Claims on banks	2,931,021	2,931,021	-	2,904,422	1,057,480
Claims on corporates and GREs	36,006,563	36,006,563	1,910,160	16,828,194	16,806,867
Regulatory retail exposures	1,557,850	1,557,850	74,001	1,437,657	1,434,879
Residential retail portfolio	649,487	649,487	11,577	637,910	637,910
Commercial real estate	638,559	638,559	-	638,559	638,559
Past due exposures	978,553	393,158	67,559	308,736	308,736
Higher-risk categories	10,732	10,732	-	10,732	16,098
Other exposures	326,993	326,993	-	326,993	79,686
Total	47,440,560	46,855,165	2,063,297	27,433,551	20,980,215

Notes to the consolidated financial statements (continued)

5. **Financial risk management** *(continued)*

(g) **Management of capital** *(continued)*

Credit risk and risk weights *(continued)*

2013 (AED'000)	On & off balance sheet Gross Outstanding	Credit risk mitigation (CRM) Exposure before CRM	CRM	After CRM	Risk-weighted assets
Claims on sovereigns	4,143,397	4,143,397	-	4,143,215	-
Claims on public sector entities	1,184,457	1,184,457	186,658	992,618	992,618
Claims on banks	2,530,166	2,530,166	-	2,547,698	781,052
Claims on corporates	28,580,872	28,580,872	1,382,306	12,961,122	12,961,122
Regulatory retail exposures	1,302,704	1,302,704	53,676	1,212,691	1,212,691
Residential retail portfolio	669,950	669,950	12,937	657,013	657,013
Commercial real estate	492,808	492,808	-	492,808	492,808
Past due exposures	886,640	322,363	54,719	267,267	267,366
Higher-risk categories	12,391	12,391	-	12,391	18,587
Other exposures	374,562	374,562	-	374,562	203,123
Total	**40,177,947**	**39,613,670**	**1,690,296**	**23,661,385**	**17,586,380**

During the year, the UAE Central Bank changed the Basel II capital adequacy return for Standardized Approach and accordingly 2013 disclosures have been aligned. On and off balance sheet exposures now include unutilized credit limits which are revocable at the discretion of the Bank amounting to AED 14,249 million (2013: AED 11,696 million).

The Group uses the following external credit assessment institutions (ECAIs): Standards & Poor, Moody's and Fitch. The external rating of ECAI is mapped to the prescribed credit quality assessment scale that in turn produces standard risk weightings. The Group uses Credit Risk Mitigation techniques (CRM) whereby only cash and bank guarantees are used in the calculation of Pillar I Capital requirements.

Market risk and risk weights

The Group's capital charge, in respect of market risk in accordance with the Standardized methodology, is as follows:

	2014 AED'000	2013 AED'000
Interest rate risk		
- Specific interest rate risk	-	-
- General interest rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	1,043	671
Option risk	-	-
Total market risk capital charge	1,043	671
Market risk – risk weighted assets	8,688	5,592

Notes to the consolidated financial statements (continued)

5. Financial risk management *(continued)*

(g) Management of capital *(continued)*

Market risk and risk weights *(continued)*

In line with the Basel II Accord, investments designated as fair value through profit or loss form part of the banking book rather than the trading book. Accordingly, the designated investment portfolio has been covered under credit risk.

Capital charge against option risk is nil (2013: nil), as all currency options are covered through back-to-back transactions with the respective counter parties.

Operational risk and risk weights

Capital requirement for operational risk is calculated using the Standardized Approach. The total capital charge is calculated by multiplying the specified eight business line's three (3) - year average net interest and net non-interest income by a percentage (beta) assigned to each of the business lines. The beta factors range from 12% to 18%, as specified in the Basel II Accord.

6. Financial assets and liabilities

6.1 Classification

The fair values and carrying values of the financial assets and liabilities at 31 December are shown below:

2014	At fair value through profit or loss	At fair value through equity	Held-to-maturity	Loans and advances	Other amortised cost	Carrying amount
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Financial assets						
Cash and balances with the UAE Central Bank	-	-	-	-	4,296,469	4,296,469
Due from banks and financial institutions	-	-	-	-	1,912,892	1,912,892
Investments – at fair value	9,576	474,962	-	-	-	484,538
Investments – at cost	-	-	113,598	-	-	113,598
Loans and advances	-	-	-	16,328,448	-	16,328,448
Other assets	-	-	-	-	1,301,488	1,301,488
Total financial assets	9,576	474,962	113,598	16,328,448	7,510,849	24,437,433
Financial liabilities						
Due to banks	-	-	-	-	680,835	680,835
Customer deposits	1,010	-	-	-	17,930,721	17,931,731
Term borrowings	-	-	-	-	1,173,160	1,173,160
Other liabilities	-	-	-	-	1,364,882	1,364,882
Total financial liabilities	1,010	-	-	-	21,149,598	21,150,608

Notes to the consolidated financial statements (continued)

6. Financial assets and liabilities *(continued)*

6.1 Classification *(continued)*

2013	At fair value through profit or loss AED'000	At fair value through equity AED'000	Held-to-maturity AED'000	Loans and advances AED'000	Other amortised cost AED'000	Carrying amount AED'000
Financial assets						
Cash and balances with the UAE Central Bank	-	-	-	-	4,037,607	4,037,607
Due from banks and financial institutions	-	-	-	-	1,756,538	1,756,538
Investments – at fair value	11,455	461,242	-	-	-	472,697
Investments – at cost	-	-	95,817	-	-	95,817
Loans and advances	-	-	-	13,864,697	-	13,864,697
Other assets	-	-	-	-	1,083,152	1,083,152
Total financial assets	**11,455**	**461,242**	**95,817**	**13,864,697**	**6,877,297**	**21,310,508**
Financial liabilities						
Due to banks	-	-	-	-	601,989	601,989
Customer deposits	1,010	-	-	-	14,996,113	14,997,123
Term borrowings	-	-	-	-	1,630,455	1,630,455
Other liabilities	-	-	-	-	1,144,852	1,144,852
Total financial liabilities	**1,010**	**-**	**-**	**-**	**18,373,409**	**18,374,419**

6.2 Fair value measurement – fair value hierarchy:

2014	Notional AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Notional – On balance sheet				
Investments				
Debt securities	-	473,805	-	-
Other investments	-	1,157	9,576	-
Customer deposits	-	-	1,010	-
Net fair values				
Forward foreign exchange contracts	5,745,853	-	6,753	-
Currency options	3,900,084	-	-	-
Interest rate derivatives	2,481,930	-	4,443	-
Commodity derivatives	528,690	-	(2,094)	-

6. Financial assets and liabilities *(continued)*

6.2 Fair value measurement – fair value hierarchy: *(continued)*

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

During the year, there were no transfers between Level 1 and Level 2 of the fair value hierarchy above. Further, there has been no change in the valuation techniques in relation to valuation of financial instruments, as discussed in note 4, during the year.

7. Cash and balances with the UAE Central Bank

	2014 AED'000	2013 AED'000
Cash on hand	247,308	171,438
Certificates of deposit (CDs) with the UAE Central Bank	2,760,000	2,100,000
Other balances with the UAE Central Bank (note 7.1)	1,289,161	1,766,169
	4,296,469	4,037,607

7.1 Other balances with the UAE Central Bank include regulatory cash reserve deposits of AED 697.6 million (2013: AED 547.1 million).

8. Due from banks and financial institutions

8.1 By type

	2014 AED'000	2013 AED'000
Placements	808,328	1,165,820
Balance in current accounts / term deposits	176,116	81,798
Bills discounted	928,448	508,920
	1,912,892	1,756,538

As at 31 December 2014, placements include cash collateral of AED 4.96 million (2013: nil) in respect of negative fair value of derivatives, in accordance with the Credit Support Annex (CSA) agreements with the interbank counterparties.

Notes to the consolidated financial statements (continued)

8. Due from banks and financial institutions *(continued)*

8.2 By geographical area

	2014 AED'000	2013 AED'000
Within UAE	1,301,214	1,329,963
GCC countries	81,849	60,340
Others	529,829	366,235
	1,912,892	1,756,538

8.3 The currency wise analysis is set out below:

	2014 AED'000	2013 AED'000
AED	716,627	889,760
USD	865,632	715,923
EUR	137,073	67,333
GBP	40,220	3,517
Others	153,340	80,005
	1,912,892	1,756,538

9. Investments

	2014 AED'000	2013 AED'000
Investments at fair value through profit or loss (FVTPL) (note 9.1)	9,576	**11,455**
Available-for-sale (AFS)		
Debt securities (note 9.2)	473,805	460,305
Other investments	1,157	937
	474,962	461,242
Held-to-maturity (HTM)		
Debt securities (note 9.2)	113,598	95,817
	598,136	568,514

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

9.2 Debt securities aggregating **AED 587.4 million** (2013: AED 556.1 million) represent the Group's investments in bonds and notes which are quoted on recognized exchanges and prices are available on internationally recognized platforms of Reuters and Bloomberg and are liquid in normal market conditions. The debt securities portfolio includes floating rate securities amounting to **AED 219.2 million** (2013: AED 243.8 million).

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

	2014 AED'000	2013 AED'000
Government	73,061	62,014
Banks and financial institutions	459,996	494,108
Others	65,079	12,392
	598,136	568,514

9. Investments *(continued)*

9.4 An analysis of investments based on external credit ratings is as follows:

2014	Debt securities AED'000	Other investments AED'000	Total AED'000
AA+	73,061	-	73,061
AA-	84,855	-	84,855
A+	61,141	-	61,141
A	157,935	-	157,935
A-	56,224	-	56,224
BBB+	48,231	-	48,231
BBB	41,375	-	41,375
BBB-	-	1,157	1,157
Unrated	64,581	9,576	74,157
	587,403	10,733	598,136

2013	Debt securities AED'000	Other investments AED'000	Total AED'000
AA	54,510	-	54,510
AA-	123,130	-	123,130
A+	47,266	-	47,266
A	167,555	-	167,555
A-	72,336	-	72,336
BBB+	51,984	-	51,984
BBB	29,110	-	29,110
BBB-	-	937	937
Unrated	10,231	11,455	21,686
	556,122	**12,392**	**568,514**

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

	2014 AED'000	2013 AED'000
Within UAE	77,694	100,823
Others	520,442	467,691
	598,136	**568,514**

9. Investments *(continued)*

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

	2014	2013
	AED'000	AED'000
AED	10,009	10,009
USD	494,737	467,473
EUR	64,759	60,587
GBP	28,631	30,445
	598,136	568,514

10. Loans and advances

10.1 Loans and advances by type:

	2014	2013
	AED'000	AED'000
Overdrafts	1,571,268	1,278,467
Term loans	10,396,022	9,373,600
Loans against trust receipts	3,397,047	2,386,904
Bills discounted	1,383,944	1,064,206
Bills drawn under letters of credit	505,032	576,569
	17,253,313	14,679,746
Allowance for impairment losses (note 10.3)	(924,865)	(815,049)
Net loans and advances	16,328,448	13,864,697

10.2 Loans and advances include Murabaha Tawarruq and Ijara financing activities provided through a *Sharia*' compliant Islamic window, "NBF Islamic." The Islamic operations were formally launched in October 2014.

10.3 Allowance for impairment losses on loans and advances

	2014	2013
	AED'000	AED'000
Balance at 1 January	815,049	790,684
Net allowances for impairment losses	132,354	167,571
Written-off during the year	(36,435)	(144,496)
Restructuring impact	13,897	-
Written-back during the year	-	1,290
Balance at 31 December	924,865	815,049

Notes to the consolidated financial statements (continued)

11. 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 credit facilities and other capital expenditure commitments of the Group which are undrawn at the date of consolidated statement of financial position. All credit related commitments are unconditionally cancellable / revocable at the discretion of the Group except for the amounts mentioned in the table below.

	2014	2013
Contingent liabilities:	AED'000	AED'000
- Letters of credit covering movement of goods	1,341,292	1,319,080
- Financial guarantees and other direct credit substitutes	643,322	640,937
- Bid bonds, performance bonds and other transaction related contingencies	4,391,720	3,972,769
	6,376,334	5,932,786

	2014	2013
Commitments:	AED'000	AED'000
- Undrawn irrevocable commitments – credit related	958,909	96,025
- Others	58,820	25,820
	1,017,729	121,845
	7,394,063	6,054,631

The total undrawn credit limits which are revocable at the discretion of the Bank amount to AED 14,249 million (2013: AED 11,696 million). Many of the contingent liabilities and commitments will expire without being funded in whole or in part. Therefore, the amounts do not represent expected future cash flows.

12. Property and equipment and capital work-in-progress

AED'000	Freehold land	Buildings & leasehold improvements	Motor vehicles, furniture, EDP & other equipment	Total
Cost				
At 1 January 2013	**14,066**	**113,970**	**53,811**	**181,847**
Additions	-	1,602	7,949	9,551
Disposals	-	-	(239)	(239)
At 31 December 2013	**14,066**	**115,572**	**61,521**	**191,159**
At 1 January 2014	**14,066**	**115,572**	**61,521**	**191,159**
Additions	**-**	**2,272**	**9,752**	**12,024**
Disposals		**(29)**	**(376)**	**(405)**
At 31 December 2014	**14,066**	**117,815**	**70,897**	**202,778**
Depreciation				
At 1 January 2013	-	52,068	45,880	97,948
Charge for the year	-	5,553	4,229	9,782
On disposals	-	-	(224)	(224)
At 31 December 2013	**-**	**57,621**	**49,885**	**107,506**
At 1 January 2014	**-**	**57,621**	**49,885**	**107,506**
Charge for the year	**-**	**6,219**	**5,847**	**12,066**
On disposals	**-**	**-**	**(376)**	**(376)**
At 31 December 2014	**-**	**63,840**	**55,356**	**119,196**
Net book value				
At 31 December 2014	**14,066**	**53,975**	**15,541**	**83,582**
At 31 December 2013	**14,066**	**57,951**	**11,636**	**83,653**

The buildings in Fujairah, Dibba, Masafi, Qidfa and Tawian are constructed on land granted to the Group by the Government of Fujairah. The land is shown at a nominal value of AED 1 each *(2013: AED 1 each).*

12.1 Capital work-in-progress

	2014 AED'000	2013 AED'000
Premises, equipment and others (note 12.2)	11,384	246
Intangible assets (note 12.3)	3,298	1,866
	14,682	2,112

12.2 Premises and equipment costs were incurred in respect of the Group's branches and other equipment (2013: Premises and equipment costs were incurred in respect of the Group's Fujairah Free Zone building and other premises).

Notes to the consolidated financial statements (continued)

12. Property and equipment and capital work-in-progress *(continued)*

12.3 The cost of intangible assets is in respect of the purchase of software and directly attributable costs relating to treasury front-end system and other software purchases. (2013: The cost of intangible assets is in respect of the purchase of software and directly attributable costs relating to implementation of Islamic Banking, Customer Relationship Management Project, Retail Lending Automation Project and other software purchases).

13. Intangible assets

	2014 AED'000	2013 AED'000
Cost		
At 1 January	54,626	40,913
Additions	11,206	13,713
Disposals	(408)	-
At 31 December	65,424	54,626
Amortization		
At 1 January	32,075	27,920
Charge for the year	6,682	4,155
At 31 December	38,757	32,075
Net book value	26,667	22,551

The cost of intangible assets comprises the cost of the Group's version upgrade of the core banking software, license cost including customization cost, and directly attributable implementation costs of the project necessarily incurred to bring the software to the state of use. It also includes purchase of software and directly attributable costs relating to the implementation of Internet Banking and other software purchases. The cost is being amortised over the estimated useful life of 5 years.

14. Other assets

	2014 AED'000	2013 AED'000
Accrued interest	86,260	82,354
Prepayments and deposits	18,008	14,290
Customer liabilities for acceptances	1,129,203	956,887
Others	91,967	69,017
	1,325,438	1,122,548

Notes to the consolidated financial statements (continued)

15. Due to banks and term borrowings

	2014 AED'000	2013 AED'000
By type:		
Club term loan facility (note 15.1)	-	863,155
Bilateral borrowing (note 15.2)	773,160	367,300
Sub-ordinated debt (note 15.3)	400,000	400,000
	1,173,160	1,630,455
Short-term borrowings	680,835	601,989
	1,853,995	2,232,444
By geographical area:		
Within UAE	275,475	120,412
GCC Countries	183,650	275,475
Others	1,394,870	1,836,557
	1,853,995	2,232,444

15.1 On 24 June 2011, the Group arranged a club term loan facility of AED 863.2 million (USD 235 million) through a syndicate of banks. The facility carried a floating rate which is the aggregate of margin plus LIBOR and was originally repayable in full on 12 June 2014. In January 2014, the club term loan facility was prepaid in full.

15.2 Bilateral borrowings comprise of several borrowings obtained from other banks and financial institutions as follows:

Loan no.	*Year obtained*	*Maturity*	*Interest rate*	2014 AED'000	2013 AED'000
1	2014	March 2016	Libor + Margin	183,650	-
2	2014	March 2016	Libor + Margin	91,825	-
3	2014	May 2016	Libor + Margin	91,825	-
4	2014	March 2015	Libor + Margin	112,020	-
5	2014	October 2015	Libor + Margin	110,190	-
6	2013	December 2015	Libor + Margin	183,650	183,650
7	2013	November 2014	Libor + Margin	-	91,825
8	2012	July 2014	Libor + Margin	-	91,825
				773,160	367,300

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

15.4 Short-term borrowings include gold related borrowings amounting to AED 575.4 million (2013: AED 393.2 million) which is used to finance gold loans extended to customers on a matched basis.

Notes to the consolidated financial statements (continued)

16. Customer deposits

	2014 AED'000	2013 AED'000
By type:		
Demand and margin deposits	4,252,576	3,274,281
Saving deposits	224,780	103,287
Fixed term and notice deposits	13,454,375	11,619,555
	17,931,731	14,997,123
By geographical area:		
Within UAE	17,318,518	14,739,883
Others	613,213	257,240
	17,931,731	14,997,123

16.1 Customer deposits include Qard Hasan Islamic current accounts and Murabaha deposits undertaken through a *Sharia*' compliant Islamic window, "NBF Islamic." The Islamic operations were formally launched in October 2014.

17. Other liabilities

	2014 AED'000	2013 AED'000
Accrued interest	44,286	51,960
Employee end of service and other long term benefits	34,590	31,377
Accrued expenses	77,013	68,068
Directors' attendance fees	2,750	2,000
Liabilities under acceptances	1,129,203	956,887
Others	148,319	88,827
	1,436,161	1,199,119

18. Shareholders' equity

18.1 Share capital

	2014 AED'000	2013 AED'000
***Authorised, issued and fully paid*:**		
1,100,000,000 shares of AED 1 each (2013: 1,100,000,000 shares of AED 1 each)	1,100,000	1,100,000

18.2 Proposed dividend

The Board of Directors proposed a cash dividend of 7.5% (2013: 12.5%) and bonus shares of 7.5% (2013: nil) of share capital for the year ended 31 December 2014.

Notes to the consolidated financial statements (continued)

18. Shareholders' equity *(continued)*

18.3 Statutory and special reserve

In accordance with the Bank's Articles of Association, the provisions of Article 82 of Union Law No. 10 of 1980 and Article 192 of Federal Law No. 8 of 1984 (as amended), 10% of the profit for the year shall be transferred to a statutory reserve which is not distributable. Additionally, in accordance with the Bank's Articles of Association, another 10% of the profit for the year shall be transferred to a special reserve which is to be used for purposes to be determined by the ordinary general meeting upon the proposal of the Board of Directors.

19. Tier 1 capital notes

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

20. Interest income

	2014 AED'000	2013 AED'000
Loans and advances	894,749	815,572
Due from banks including the UAE Central Bank CDs	22,874	10,586
Investments	11,066	12,526
	928,689	**838,684**

21. Interest expense

	2014 AED'000	2013 AED'000
Due to banks including term borrowings	21,705	36,100
Customer deposits	225,911	220,580
	247,616	**256,680**

Notes to the consolidated financial statements (continued)

22. Net fees and commission income

	2014 AED'000	2013 AED'000
Fees and commission income		
Letters of credit	79,941	71,750
Letters of guarantee	45,931	41,203
Lending fees	97,388	95,190
Asset management and investment services	73	31
Commission on transfers	17,983	18,024
Others	20,225	3,081
Total fees and commission income	261,541	229,279
Fees and commission expense		
Brokerage expense	622	495
Card related charges	8,281	5,551
Other charges	570	141
Total fees and commission expense	9,473	6,187
Net fees and commission income	252,068	223,092

23. Income from investments

	2014 AED'000	2013 AED'000
Net fair value gains on investments	5,148	6,453

24. Other operating income

	2014 AED'000	2013 AED'000
Rental income	1,108	1,279
Rebates	5,456	3,747
Other miscellaneous income	9,576	5,362
	16,140	10,388

25. Employee benefits expense

Employee benefits expense includes employee bonus of AED 51.1 million (2013: AED 35.8 million). The number of employees at 31 December 2014 was 712 (including 576 relating to the Bank) of which 242 (relating to the Bank) were UAE nationals [2013: 668 (including 555 relating to the Bank) of which 228 (relating to the Bank) were UAE nationals].

Notes to the consolidated financial statements (continued)

26. Earnings per share

The calculation of earnings per share is based on net profit of **AED 505.4 million** (2013: AED 393.1 million), after deduction of **AED 34.2 million** (2013: AED 17.2 million) of coupon payment on Tier 1 capital notes, divided by the weighted average number of shares of **1,100 million** (2013: 1,100 million shares) outstanding during the year.

27. 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 consolidated financial statements are as follows:

	2014	2013
Statement of financial position items	**AED'000**	**AED'000**
Loans and advances	**1,182,407**	980,877
Customer deposits	**4,642,445**	4,057,070
Investments	**73,417**	19,221
Letters of credit	**72,229**	84,194
Financial guarantees and other direct credit substitutes	**41,160**	35,659
Transaction related contingencies	**127,755**	126,638
Acceptances	**58,463**	58,086
Tier 1 capital notes	**500,000**	500,000
Tier 1 capital notes coupon paid	**34,220**	17,157
Statement of income items		
Interest income	**34,428**	32,781
Interest expense	**90,798**	85,615
Other income	**14,769**	8,129
Key management compensation		
Salaries and other short-term benefits	**19,820**	17,782
Employee end of service benefits	**533**	526
Directors' attendance fees	**2,750**	2,000

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

The loans given to related parties amounting to **AED 1,182.4 million** (2013: AED 980.9 million) have been secured against collateral amounting to **AED 1,074.0 million** (2013: AED 774.7 million).

28. 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:

	2014	2013
	AED'000	AED'000
Cash on hand	247,308	171,438
Balances with the UAE Central Bank (note 28.1)	3,351,558	3,319,059
Due from banks with less than three months maturity	802,373	1,197,618
	4,401,239	4,688,115
Due to banks with less than three months maturity	(651,638)	(465,631)
	3,749,601	4,222,484

28.1 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.

29. Segmental reporting

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

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

Business segments

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

Corporate and Institutional banking

Corporate and Institutional segments

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

Business banking segment

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

Retail banking

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

Treasury, Asset and Liability Management (ALM) and others

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

Notes to the consolidated financial statements (continued)

29. Segmental reporting *(continued)*

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

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

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

2014 – AED'000	Corporate and Institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	535,997	247,985	72,367	168,859	1,025,208
Segment operating cost	(181,726)	(104,014)	(78,040)	(23,636)	(387,416)
Segment operating profit / (loss)	354,271	143,971	(5,673)	145,223	637,792
Net impairment losses	(80,121)	(39,063)	(13,170)	-	(132,354)
Net profit / (loss)	274,150	104,908	(18,843)	145,223	505,438
Segment assets	14,093,716	2,799,608	1,608,424	6,084,566	24,586,314
Segment liabilities	16,675,400	2,062,939	1,208,596	1,274,952	21,221,887
Capital expenditure	-	-	-	35,263	35,263

2013 – AED'000	Corporate and Institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	Consolidated
Segment revenue	502,560	206,687	64,457	110,946	884,650
Segment operating cost	(153,026)	(89,014)	(67,292)	(14,627)	(323,959)
Segment operating profit / (loss)	**349,534**	**117,673**	**(2,835)**	**96,319**	**560,691**
Net impairment losses	(134,767)	(28,315)	(4,489)	-	(167,571)
Net profit / (loss)	**214,767**	**89,358**	**(7,324)**	**96,319**	**393,120**
Segment assets	**11,978,675**	**2,217,669**	**1,245,076**	**6,016,800**	**21,458,220**
Segment liabilities	**13,747,369**	**1,858,687**	**975,828**	**1,846,802**	**18,428,686**
Capital expenditure	**-**	**-**	**-**	**19,385**	**19,385**

30. Comparative figures

Certain comparative figures have been reclassified where appropriate to conform to the presentation and accounting policies adopted in these consolidated financial statements.