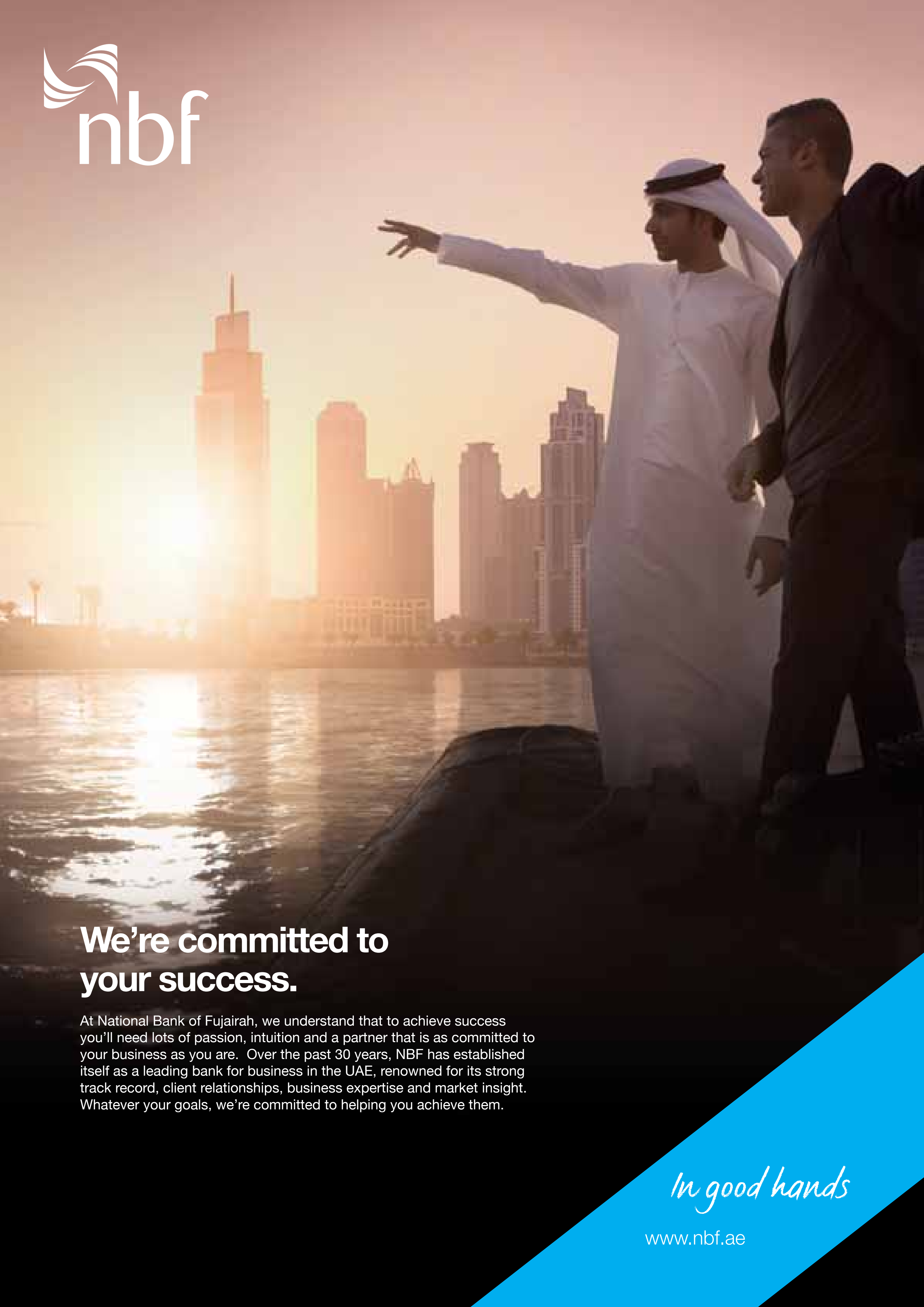
بنك الفجيرة الوطني
National Bank of Fujairah

ANNUAL REPORT **2015**


nbf
We're committed to your success.
At National Bank of Fujairah, we understand that to achieve success you'll need lots of passion, intuition and a partner that is as committed to your business as you are. Over the past 30 years, NBF has established itself as a leading bank for business in the UAE, renowned for its strong track record, client relationships, business expertise and market insight. Whatever your goals, we're committed to helping you achieve them.
In good hands
www.nbf.ae

HIS HIGHNESS SHEIKH KHALIFA BIN ZAYED AL NAHYAN

President of the UAE

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

NBF
AN INTRODUCTION

NBF has built on its strong position by concentrating on its core business and deepening its focus on the customer.

THE BANK FOR BUSINESS IN THE UAE, THE PRIDE OF FUJAIRAH

Incorporated in 1982, 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.

OUR NETWORK

Head Office

Hamad Bin Abdullah Street
PO Box 887, Fujairah

Tel +971 9 222 4518
Fax +971 9 222 4516

NBF Branches and Offices

Fujairah

Fujairah Branch
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Tel +971 4 397 1700
Fax +971 4 397 9100

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Opposite Abu Hail Centre
Abu Hail Main Road
PO Box 125841, Dubai
Tel +971 4 507 8100
Fax +971 4 221 6831

Jebel Ali Branch
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Next to Etisalat, Jebel Ali
PO Box 17676, Dubai
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Fax +971 4 881 0939

Al Quoz Branch
Shop#14, The Curve Building
Next to Audi Showroom
Sheikh Zayed Road, Al-Quoz
PO Box 126565, Dubai
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Fax +971 4 328 5494

NBF Diamond Financing Office
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PO Box 340550, Dubai
Tel +971 4 507 8362
Fax +971 4 397 7515

Ajman

Ajman Branch
Al Shorafa Building
Opposite R Holding offices
Sheikh Khalifa Bin Zayed Street
PO Box 7622, Ajman
Tel +971 6 593 1100
Fax +971 6 744 4012

Sharjah

Sharjah Branch
Sparco Building, Sharjah College
Industrial Area
PO Box 1416, Sharjah
Tel +971 6 593 1111
Fax +971 6 525 5887

Abu Dhabi

Abu Dhabi Branch
Al Ferdous Tower
Al Salam Street
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Tel +971 2 612 5300/612 5400
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Mussafah Branch
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Fax +971 2 555 1215

NBF Corporate Banking Office
Al Badie Building
Capital District
Near ADNEC Area
PO Box 786, Abu Dhabi
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Fax +971 2 445 9929

Al Ain

Al Ain Branch
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Near Clock Intersection
Opposite GPO, Main Road
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Tel +971 3 764 8142
Fax +971 3 764 8156

NBF Subsidiaries

Dubai

NBF Capital Ltd.
(Regulated by the DFSA)
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Precinct Building 4, DIFC
PO Box 128217, Dubai
Tel +971 4 507 8517

Fujairah

NBF Financial Services FZC
Fujairah Free Zone
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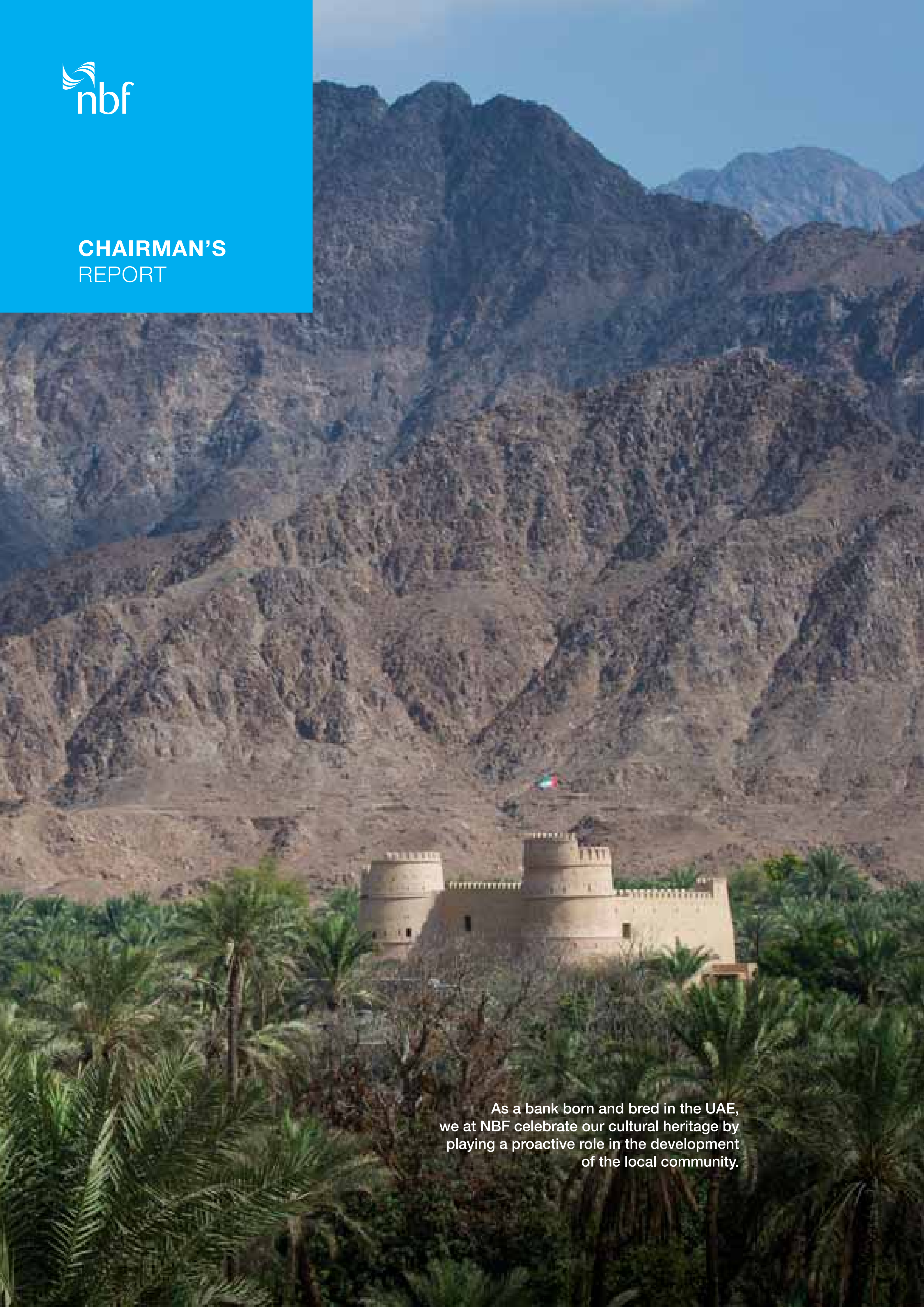
CHAIRMAN'S REPORT



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.

On behalf of the Board of Directors, I am pleased to present the Annual Report of National Bank of Fujairah PJSC and its subsidiaries for the year ended 31 December 2015.

In a year characterised by unprecedented developments in the global economy, NBF was able to build on its strong position by concentrating on its core business and deepening its focus on the customer. The Bank made particularly good progress in the face of rapidly-changing market conditions by continuing to improve its financial position, with prudent liquidity management and adequate provisions to mitigate the deteriorating credit quality in some areas of the economy. This ongoing effort helped grow the Bank's net profit and further raise its public profile as a reliable and consistent partner.

NBF capped off an exceptional 2015 with a series of industry awards acknowledging its leadership in the local banking sector. It won "Best Commercial Bank - UAE" and "Best Corporate Bank - UAE" at the Banker Middle East Industry Awards (BME), and NBF Capital was awarded "Best Corporate Advisory Service" – achievements made all the more significant by the fact that winners are selected through public voting. NBF was also named "Best Local Bank – UAE" at the EMEA Finance ME Banking Awards in December, adding to an impressive list of accolades acknowledging excellence in areas from trade finance, corporate advisory and treasury services to the Bank's Internet banking platform and Emiratisation efforts.

In terms of financial performance, the Bank posted a 10.5% increase in net profit to AED 558.8 million from AED 505.4 million - the Bank's best result to date. With this commendable result, we will have outperformed the average operating profit growth for the industry for a fifth consecutive year, despite the market starting to show signs of stress. Core operating income growth of 18.3% was achieved by maintaining our focus on core businesses. The cost to income ratio improved from 37.8% to 36.8%, reflecting the Bank's ongoing efforts at achieving operational and cost efficiencies. NBF's strong income growth, coupled with improved productivity, contributed to operating profit surging 20.2% to AED 766.9 million. Foreign exchange and derivatives income marked a growth of 28.5% from AED 70.8 million in 2014 to AED 91.0 million. Financial stability was underpinned by the strengthening of the capital adequacy ratio to 18.4%, a Tier 1 ratio of 15.7%, pure advances to deposits ratio at 91.1% and an eligible liquid assets ratio of 18.2%.

As a response to a noticeable slowdown in the operating environment and rising levels of credit stress in the second half of the year, NBF adopted a prudent approach to loan loss provision. Accordingly, net impairment losses increased to AED 208.1 million from AED 132.4 million in 2014 with total provision coverage at 107.8%. This has resulted in a lower rate of net profit growth despite strong operating improvements and a subsequent return on average assets of 2.1% compared to 2.2% in 2014. These measures, combined with our steadfast focus on core businesses, enhanced risk management, strong capital and liquidity positions and prudent provision coverage, will ensure that NBF is in a good position to navigate through short-term difficulty in the operating environment and achieve long-term, sustainable growth.

"NBF capped off an exceptional 2015 with a series of industry awards including 'Best Commercial Bank - UAE' and 'Best Corporate Bank - UAE' at Banker Middle East Industry Awards, and 'Best Local Bank - UAE' at EMEA Finance Middle East Banking Awards."

To that end, the Bank's strategy of diversifying its business and introducing new services has been producing results. In its second year of operations, NBF Capital, the Bank's corporate advisory subsidiary, continued to grow from strength to strength, achieving a 58.0% growth in net profit from AED 10.6 million in 2014 to AED 16.8 million and maintaining significant pipeline of projects. Similarly, NBF Islamic, the Bank's full-fledged Shariah banking proposition, in its first year of operations, recorded a net profit of AED 3.3 million and total assets worth AED 1.3 billion. In April, NBF established a specialised unit focused on financing manufacturers and traders of rough and polished diamonds as an extension of its precious metals business. It also launched a corporate banking unit dedicated to Emirati women entrepreneurs and business leaders in response to the growing role women play in the local economy.

Notwithstanding the challenging environment, we believe there will continue to be good opportunities that we can leverage for future growth. Going into 2016, we remain committed to enhancing our service suite in support of our customers, with work already underway towards introducing new solutions ranging from global transaction services to priority banking.

STAKEHOLDER ENGAGEMENT AND CORPORATE GOVERNANCE

Stakeholder engagement and investor relations continue to be of the utmost priority for NBF, and the Bank recently took measures to improve its communication with the local community. The Bank's website was improved with the addition of services and segment updates, latest developments, credit ratings and press releases, and its senior management continue to engage regularly with minority shareholders to update them on the Bank's progress and plans for the future.

During the year, the Board engaged the services of the Institute of International Finance (IIF) and Nestor Advisors to further enhance its awareness of the latest world class corporate governance principles and practices. Such work helps to inform the continuing improvement of the Board's activities and to further develop the Bank's commitment to the highest levels of transparency and governance.

"Going into 2016, we remain committed to enhancing our service suite in support of our customers, with work already underway towards introducing new solutions ranging from global transaction services to priority banking."

We were also lauded at the 7th Annual MENA HR Excellence Awards, where we were ranked among the top three institutions in the region for our Emiratisation initiatives. Held on the back of the 10th Human Assets Expansion Summit MENA, the platform provided a prestigious endorsement of NBF's market-leading HR initiatives.

The Bank's sound fundamentals were further reaffirmed with its investment grade ratings of Baa1 / Prime - 2 for deposits and A3 for counterparty risk assessment by Moody's, and BBB+ / A-2 by Standard & Poor's, both with a stable outlook. The Bank's strong financial footing was also highlighted in The Banker magazine's Top 1,000 banks list for 2015, where it was the ninth highest mover for growth in Tier 1 capital in the Middle East and ranked 84th in the world for its overall soundness.

SHAREHOLDERS' RETURNS

The Bank takes pride in its ability to consistently deliver value to its shareholders, and this year was no exception. In March 2015, the Bank issued its second tranche of Tier 1 capital notes of AED 500 million to augment the capital base in line with its growth plans. This increase in capital is reflected in the small drop in the Bank's return on average equity (ROAE) of 14.6% for the year compared to 15.8%, but we expect the higher level of return to revert as the business utilises the increased capital level. The book value per share has improved by 6.5% to AED 2.8 from AED 2.6 and earnings per share has improved by 7.1% to AED 0.43 from AED 0.40.

Taking into account the 2015 performance, the good prospects for the Bank and the current market conditions, I, on behalf of the Board of Directors, am pleased to recommend an unchanged distribution of profits of 15% (2014: 15%) in the form of cash dividends of 7.5% (2014: 7.5%) and bonus shares of 7.5% (2014: 7.5%) of paid-up capital.

PLEDGING OUR CONTINUED COMMITMENT TOWARDS THE SUCCESS OF OUR BELOVED NATION AND ITS PEOPLE

With a track record spanning over 30 years in the UAE, NBF is no stranger to emerging from challenging market conditions better equipped for the future. Just as the 2008 financial crisis reaffirmed the importance of sticking by longtime customers through thick and thin, we will continue to provide best-in-class service in support of our clients' long term goals. Like any market cycle, the current period of stress will pass, and the way forward for the Bank is to continue to foster a culture wherein responsible behaviour is embedded in our long-term thinking and relationship driven approach.

On a macro level, there is no doubt that the UAE will continue to serve as a beacon of hope amid the prevailing uncertainty. As a bank that is born and bred in the UAE, it is our privilege to continue to play a role in the nation's ongoing development and success.

Despite the challenging geopolitical situation in the region and lower oil prices, the UAE economy is expected to grow in excess of 3% in 2015 and 2016, due to its resilience and the economic diversification the country was able to achieve in recent years. The second largest economy in the Middle East continues to make headway in its diversification efforts; by 2021, GDP contribution from the country's oil and gas sector is expected to be reduced to 30% whilst the industrial sector's share is forecast to expand from 14% to 20% in the same period.

The Bank's home emirate of Fujairah continues its growth. Plans have been finalised to develop residential compounds and towns on the outskirts of Fujairah city, a project that will run up to 2030. Work has also begun on the Mohammad bin Zayed residential city comprising residential units, mosques, schools, clinics and parks.

"As the bank for business in the UAE and the pride of Fujairah, NBF is well-positioned to tap these exciting opportunities for further success."

Meanwhile, the initiative of the Port of Fujairah to construct Marine Berths to receive and handle the Very Large Crude Carrier Vessels (VLCC) as well as the execution by Vopak Horizon Fujairah of the New Black Peers Project to store and handle cruide oil which constitute the 7th expansion phase of the company and also the construction by VTTI Fujairah Terminal of specialised Tank Farm for storage and treating cruide oil, will all contribute in consolidating the position and status of Fujairah not only as a leading International Bunkering Hub, but also as Regional and International Centre for storage and handling of crude oil and petroleum products. Abu Dhabi Airports and Fujairah Airport have signed a Memorandum of Cooperation to develop an airport development master plan that will ensure the delivery of an efficient and adequate expansion program for Fujairah International Airport. This will cater to the inflow of businessmen and tourists to this emirate.

As the bank for business in the UAE and the pride of Fujairah, NBF is well-positioned to tap these exciting opportunities 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 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 unwavering 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 staunch support over the course of NBF's amazing journey.

Saleh Bin Mohamed Bin Hamad Al Sharqi

DIRECTORS' REPORT

We continue to focus on true value creation, connecting customers to opportunities and ensuring the long-term sustainability of their business models.

FINANCIAL RESULTS
THE GROUP

NBF's best ever performance was achieved in the face of difficult market conditions underlining its focus on true value creation, connecting customers to opportunities and ensuring the long term sustainability of its model. Our strategy builds on the strengths of our core businesses and our continually developing customer focus while capitalising on the growth opportunities within the country.

After a relatively buoyant period in the developing world, 2015 heralded a significant change in fortunes for many and the underlying causes of which seem likely to be with us for some time. Indeed, ongoing volatility in the global markets is continuing to have an adverse effect on almost all economies around the world. In what has been regarded as one of the worst starts for global stock markets in two decades, more than US$ 2.3 trillion (6.2%) was wiped off bourses worldwide in the first week of January 2016 following a crash in Chinese stock markets. A combination of global economic slow-down, reduction in consumption, credit and liquidity stress has impacted market and customer confidence, and governments across the world have been taking steps to defend their economies and minimise the impact during this period of stress.

Whilst it remains relatively well positioned, the UAE has not been immune to the current market developments; like many of its peers in the region, it could not escape the global bearish sentiment fuelled by a drop in oil prices to an 11-year low, and the steep decline in global equity markets. It is therefore inevitable, in light of the current operating environment, that the resulting pressure on liquidity and asset quality of banks in the UAE will have an impact on their fourth quarter results and near term growth rates. Nonetheless, National Bank of Fujairah has responded to these challenges and continues to identify good business opportunities whilst managing its business prudently with a firm focus on long-term financial stability.

The Bank posted its highest-ever net profit in 2015 at AED 558.8 million, 10.5% higher than the AED 505.4 million achieved in 2014. Operating profit was AED 766.9 million in 2015, up 20.2% from AED 637.8 million in the previous year.

Operating income grew by 18.3% to AED 1,213.1 million, compared to AED 1,025.2 million in 2014, reflecting the Bank's diversification strategy and growth in the underlying volume of core business. Net interest income grew by 17.7% to AED 801.3 million, compared to AED 681.1 million in 2014 due to robust asset and liability management. Non-interest income rose to AED 411.8 million, 19.7% higher than the AED 344.1 million in 2014, primarily reflecting an increase in the Bank's trade business and credit growth. Exchange income, including derivatives income, saw a solid growth of 28.5% to AED 91.0 million. A gain in investment income of AED 2.7 million was also recorded in 2015, compared to AED 5.1 million for the corresponding period in 2014.

Operating expenses increased by 15.2% to AED 446.2 million and the cost-to-income ratio improved to 36.8% from 37.8% in 2014 reflecting the Bank's attention towards effective cost management, growing returns from new growth initiatives and enhancements to operating and service platforms.

Despite the strength of the underlying core businesses, NBF's overall performance reflects the downturn in certain areas of its business. Loan loss charges for the year stood at AED 208.1 million, up from AED 132.4 million in 2014. NBF's non-performing loans and advances (NPL) ratio was 4.7% compared to 4.4% in 2014. During the year, recoveries from NPLs rose to AED 226.5 million compared to AED 92.5 million in 2014, and write-offs amounted to AED 78.7 million compared to AED 36.4 million in the previous year. Total provision coverage stood at a healthy 107.7% in 2015, compared to 121.4% in 2014, however specific provision coverage improved to 63.8 % from 56.6% over the same period.

The change in coverage reflects the Bank's prudent provisioning based on its Basel internal rating based approach. The Bank maintains total provisions based on a combination of its through-the-life probability of default matrices, regulatory requirements and the developing accounting standards to ensure compliance and appropriate prudential coverage is achieved. This results in making additional collective provisions in respect of the performing portfolio where impairment loss might occur but cannot be measured reliably. Since the current market conditions have crystallised many of these potential losses, part of the collective provision has become specifically allocated, whilst ensuring overall levels are managed to remain in compliance with the Bank's medium term prudential model. The current expected loss approach is being adapted for compliance with the new accounting requirements set out by International Financial Reporting Standard (IFRS) 9, 'Financial Instruments'.

The NBF Group remains highly disciplined in its focus on maintaining a strong balance sheet, which continues to be highly liquid, well diversified, and conservatively positioned. Growth in lending and deposits of 20.6% and 20.5%, respectively, in 2015 reflects the strength of the Bank's customer relationships and its commitment to supporting the ongoing development of the UAE. Furthermore, total assets grew 22.2% to AED 30.0 billion during this period, up from AED 24.6 billion at the end of 2014.

The Bank has also maintained strong capital adequacy and liquidity levels relative to its risk profile and growth strategy. Our focus on quality has contributed to the strength of our capital adequacy and liquidity. During the year, the Bank issued its second tranche of Tier 1 capital amounting to AED 500 million which improved its Tier 1 capital ratio to 15.7% from 14.6% in 2014.

We continue to proactively assess the uncertainty and change in the macro environment and fine tune our risk management and business strategies accordingly to address and mitigate their impact on our businesses. Notwithstanding the challenges ahead, we are confident that by maintaining an unwavering focus on risk management, financial prudence and sustainability, effective execution and transparency, the Bank will continue to make good progress over the coming years.

NBF's return on average equity was 14.6%, compared to 15.8% in 2014, and return on average assets was 2.1% compared to 2.2% in 2014.

RISK MANAGEMENT

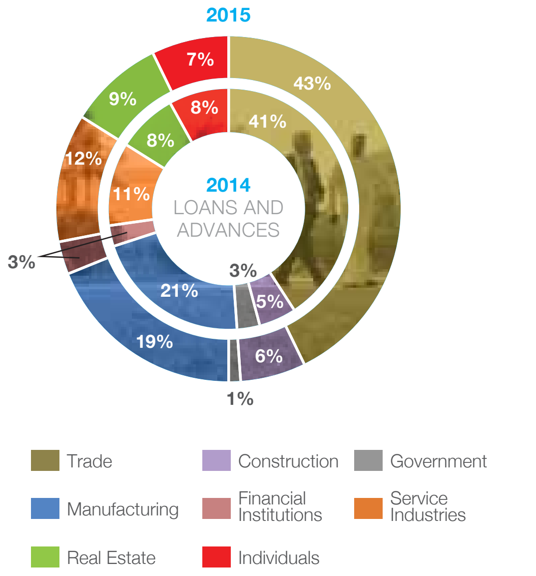
NBF has established a robust risk management and governance framework for effective enterprise-wide management of risks in line with the Board approved risk appetite to build a sustainable franchise for its stakeholders.

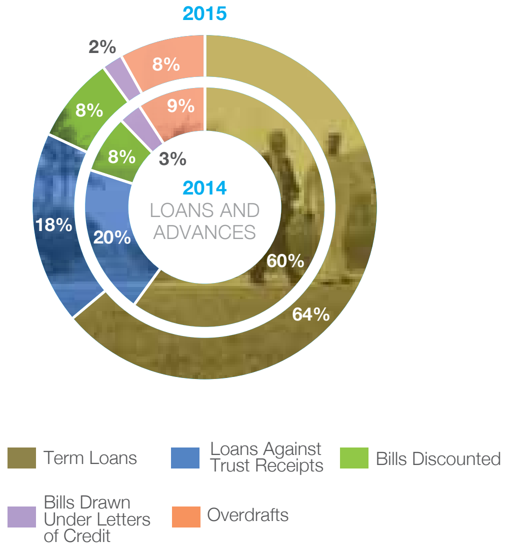
Risk appetite plays a central role in the development of our strategic plans and policies to balance risks and returns. The strategic plan takes into consideration key uncertainties which the Bank may potentially face. This includes a possible deterioration in economic or financial and geo-political conditions, stringent regulatory requirements, execution risk, liquidity, market and operational risks. Risk policies and strategies adapt to the market conditions and operating environment dynamically to ensure that they remain within the Bank's overall risk appetite and are balanced with returns.

The Bank follows a forward-looking approach while managing various risk elements in line with the Basel II methodologies including managing credit risk based on the Foundation Internal Rating Based Approach (F-IRB) including establishing default predictive methodologies. This allows NBF to use robust risk management tools and best practices for assessing and managing its risks and capital adequacy effectively and efficiently.

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 29.5% in 2011 to 23.7% in 2015, further improving its risk profile. During the year, lending secured by pledged deposits increased from 21.6% in 2014 to 30.3% in 2015 which reflects the Bank's continued focus on enhancing risk quality and mitigants.

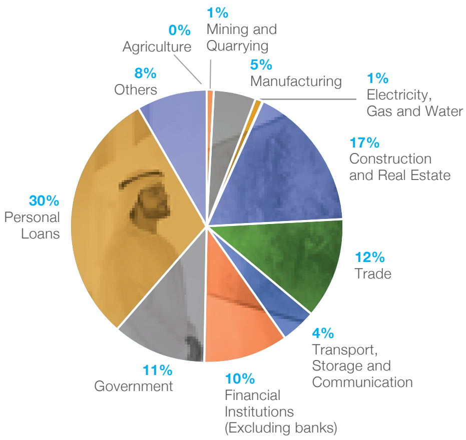
The Bank also continuously monitors and manages its concentration risk from multiple perspectives through breadth of products, customer segments and sectors:



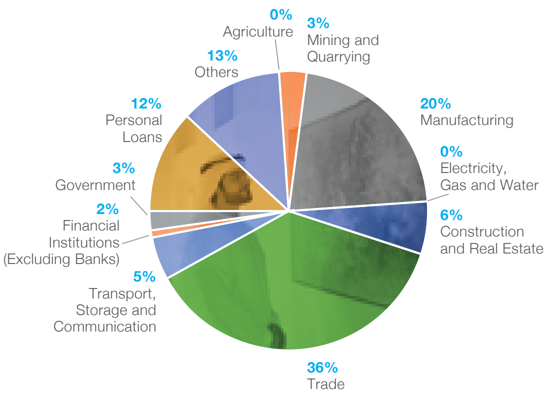


NBF's segmented focus compared to the industry continues to set it apart and reflects its prudent approach towards high risk sectors and focus on long term, sustainable results:

INDUSTRY (31 December 2015)



NBF (31 December 2015)



NBF has significantly improved its liquidity risk profile in recent years and it continues to remain strong despite the liquidity pressure seen in the market. Matching our lending with the growth in our deposits continues to be a principal focus, and the Bank was able to achieve a growth in deposits in 2015 of AED 3.68 billion compared to lending growth of AED 3.36 billion. The group is predominantly deposit-funded and its deposits to total assets ratio was 72.0% compared to 72.9% in 2014. The Bank's advances to deposits ratio was maintained at 2014 level of 91.1% despite the liquidity pressure in the market. The Bank's balance sheet is well-diversified and its eligible liquid assets ratio remain one of the highest at the industry level at 18.2% compared to 20.3% in 2014 while at the same time, the Bank has improved the duration of its liabilities.

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 80.8% of the debt securities portfolio rated "BBB+" and above, compared to 82.0% in 2014.

During the year, the Bank has initiated a phased implementation of a treasury front end system that includes asset and liability management capabilities. The Bank now monitors liquidity coverage ratio and net stable funding ratio daily and qualitative aspects for the compliance of Basel III requirements are being progressively implemented. The Bank monitors its foreign exchange and derivative products based on credit equivalent exposure (CEE) which is supported by the new system.

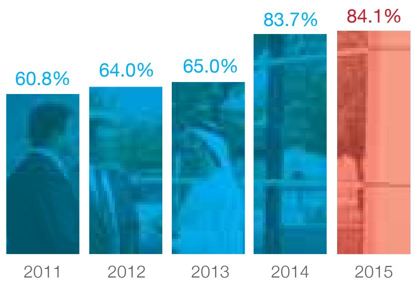
NBF is fully committed to the highest compliance and anti-money laundering standards and the protection of the UAE financial system. It has continued to strengthen its anti-money laundering policies, procedures and systems in line with the latest recommendations from the Financial Action Task Force (FATF), the international anti-money laundering regulatory body, UAE Federal Laws and guidelines from Central Bank of the UAE. The Bank has also carried out detailed gap analyses and set out an action plan for adherence to the requirements of National Electronic Security Agency (NESA) introduced during the year which is currently under implementation.

The Bank complements its compliance efforts with annual learning programmes that allow staff to stay abreast of current developments so as to better fulfil their responsibilities.

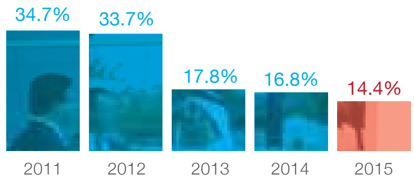
NBF maintains solid capitalisation levels commensurate to its strategic plan, its potential risks and regulatory requirements. During the year, the Bank's capital base was further augmented by the issuance of second tranche of Tier 1 capital notes and adoption of a supportive dividend policy where 50% of dividends are in the form of bonus shares ensuring higher profit retention. This enables the Bank to maintain strong capital adequacy levels and achieve its goal of improving proportion of Tier 1 capital taking into consideration Basel III requirements (see graphs on the next page).

The Bank's sound fundamentals are further reaffirmed by its investment grade ratings of Baa1 / Prime-2 for deposits and A3 for counterparty risk assessment by Moody's and BBB+ / A-2 by Standard & Poor's, both with a stable outlook.

Profit Retention Ratio



Tier 2 Capital / Capital Base



SEGMENT PERFORMANCE

NBF's long-standing dedication to relationship management and delivering the highest level of customer experience is well known to the industry and customers alike. Looking ahead, our strategy will continue to revolve around building deep client relationships, as reflected in our segmented approach to servicing customer needs. We believe that we have scope to deepen our client relationships further by achieving exceptional 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 1,017.6 million (2014: AED 865.3 million). This includes income from foreign exchange and derivatives (AED 79.0 million (2014: AED 65.1 million) and advisory (AED 23.0 million (2014: AED 16.3 million) services provided to these customers, which are reported under Treasury, ALM and Others segment.

Corporate and Institutional (C&IB) Segments

NBF's efforts to grow its franchise through the expansion of its specialised industry based segments achieved further recognition this year when it won "Best Corporate Bank UAE" for the first time at the Banker Middle East Industry Awards.

NBF's corporate and institutional banking segments represent 53.6% of the Bank's operating income, compared to 52.3% in 2014. The segment's operating income increased to AED 650.4 million, up 21.4% from AED 536.0 million in 2014. Additionally, assets reached AED 17.2 billion, rising 21.9% from AED 14.1 billion in 2014, while liabilities increased by 15.3% to AED 19.2 billion compared to AED 16.7 billion in 2014. The strong growth in these segments reflects the Bank's strategy of diversifying its sources of business and risks. A number of initiatives were undertaken which contributed to strong results during this year:

- A sharper focus on the service and manufacturing segment contributed to strong income growth of 40.4% from AED 99.6 million in 2014 to AED 140.0 million.
- C&IB segments played a significant role in the progress of NBF Islamic, the Bank's full-fledged Shariah banking proposition. The segment contributed AED 17.7 million in operating income, AED 1,095.8 million in deposits and AED 503.5 million in financing.
- The Bank further built on its reputation as leading local bank in the precious metal market by expanding its expertise in the diamond space. During the year, new customers in this segment contributed AED 14.5 million in operating income, AED 263.5 million in assets and AED 345.0 million in deposits.
- Our equipment finance unit, which was established in 2014, contributed AED 14.6 million in operating income in 2015. Its asset portfolio grew to AED 476.0 million.

The segment's net profit increased by 9.3% to AED 292.9 million after absorbing the increase in loan losses by 67.9% to AED 134.5 million.

Business Banking Segment

NBF continues to raise its profile as the bank for business in the UAE, once again winning "Best Commercial Bank UAE" at the Banker Middle East Awards, further re-affirming 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's economy. Whilst the Bank remains committed to supporting this segment of the UAE economy, it has enhanced controls and underwriting standards to better protect it from the weakness currently seen in the market.

The segment's credit losses increased by 42.1% to AED 55.5 million. Consequently, its net profit saw a decline of 16.6% to AED 84.5 million. The Bank continues to follow a proactive and transparent approach in recognising and managing problem accounts whilst it continues to support credit worthy customers.

NBF's business banking segment represents 21.9% of the Bank's operating income, down from 24.2% in 2014. However, operating income growth of 6.9% to AED 265.2 million was recorded. The segment's assets totalled AED 2.9 billion in 2015, rising 5.0% compared to AED 2.8 billion in 2014. The segment's liabilities rose to AED 2.7 billion up 29.4% from AED 2.1 billion in 2014, a reflection of the enhanced focus on cash management, an improvement in the cross-selling of products and progress in collateral coverage. The segment has pledged deposits amounting to AED 830.9 million, which represents 28.4% of its credit portfolio.

RETAIL BANKING

The Bank's continued focus in the expansion of its retail business across the UAE has allowed the segment to turn in a profit this year, reflecting the ongoing success of NBF's diversified business strategy. Shariah-compliant retail banking products and services have also helped to grow the Bank's customer base.

The segment's assets grew by 10.7% to AED 1.8 billion and liabilities went up by 49.3% to AED 1.8 billion in 2015. Operating income grew by 17.7% to AED 89.3 million. An enhanced sales focus aimed at building a stronger business has helped improve service and coverage whilst, managing the impact of the interest spread in a low interest rate environment. The segment's costs increased by 3.0% to AED 70.3 million, reflecting an enhanced focus on automation, a fine tuning of its operating model and improvements in allocation of costs around NBF's branch network to its broader segments. These efforts and strategies helped the segment to report a net profit of AED 0.9 million compared to a loss of AED 5.6 million in 2014.

TREASURY AND ASSET, LIABILITY MANAGEMENT (ALM) AND OTHERS

Our award-winning treasury business continues to be highly regarded in the market and offers a wide range of products to customers across diverse segments. Treasury has had another successful year with a robust growth in foreign exchange and derivatives income of 28.5% to AED 91.0 million, compared to AED 70.8 million in 2014. Sophisticated derivative transactions undertaken by the Bank also highlighted the technical competence of NBF's treasury and its ability to offer a 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, 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 and net income from Islamic financing and investment activities growth of 17.7%. The combined share of the Bank's income from Treasury and ALM improved to 17.2% from 16.1% in 2014. The investments portfolio, principally representing investment grade debt securities, increased by 135.3% to AED 1.4 billion.

This segment also includes the results of NBF's subsidiary, NBF Capital Limited, a DIFC-based advisory business. NBF Capital enjoyed another successful year recording a net profit growth of 58% to AED 16.8 million and maintaining a significant pipeline of projects. The group will expand the subsidiary's activities further to build on its success.

NBF ISLAMIC

The UAE has received top rankings as one of the healthiest Islamic economy environments worldwide, second only to Malaysia on scores spanning seven key economic sectors according to Global Islamic Economic Indicator (GIEI) which measures the development health of Islamic economy sectors across 73 countries.

Dubai's vision to become the "global capital" of the Islamic economy and leading Islamic banking hub has strong merits. Dubai is already the world's leading hub for multi-billion dollar trade in sukuk issuance. This supportive environment and growing customer demand encouraged NBF to develop a Shariah-compliant offering to its retail and corporate customers resulting in the launch of NBF Islamic at the end of 2014.

NBF Islamic is now offering a good mix of retail and corporate banking products complying with Shariah Rules based upon structures including Murabaha, Wakala, Ijara and Istisna' forward Ijara. During its first year of operations, NBF Islamic has grown at a phenomenal pace and in a short span of time has achieved an asset base of AED 1.31 billion and net profit of AED 3.3 million. Total Islamic financing receivables and Islamic customer deposits reached AED 587.58 million and AED 1.12 billion respectively.

The quality of NBF Islamic offerings and its operations from Shariah compliance perspective is re-affirmed by the Shariah Audit Report 2015 below:

In the name of Allah, The Most Merciful, The All Beneficent

NBF Islamic, the Islamic Banking Window of National Bank of Fujairah PJSC (the Bank)

SHARIAH SUPERVISORY BOARD REPORT FOR THE YEAR ENDED 31 DECEMBER 2015

The Shariah Supervisory Board has approved and supervised contracts and transactions, in accordance with the principles of Shariah, entered into by the Bank for the year ended 31 December 2015. The Shariah Supervisory Board has performed its supervision to enable it to express an opinion on the Bank's compliance with the provisions and principles of Islamic Shariah, as well as with fatwas, resolutions and specific guidelines that were issued by it from time to time.

The management of the Bank is responsible for compliance with laws and principles of Shariah in all Islamic banking transactions. The Shariah Supervisory Board responsibility is limited to expressing an independent opinion based on its monitoring of the Bank's operations.

The Shariah Supervisory Board's annual audit and monitoring included inspecting documentation and procedures of the Islamic banking undertaken by the Bank on the basis of sample testing of all types of transactions.

The Shariah Supervisory Board planned and executed its audit and monitoring to obtain all information and explanations deemed necessary to review sufficient evidence that Islamic banking did not contravene the principles of Shariah.

Based on its monitoring and supervision, the Shariah Supervisory Board states the following:

a. Contracts and transactions entered into and processes followed by the Bank during the year ended 31 December 2015, were conducted in accordance with the principles of Shariah.

b. All amounts required to be channelled to charity were duly donated to charity organisations approved by the Shariah Supervisory Board.

Allah Almighty knows best.

Approved By:
National Bank of Fujairah Shariah Supervisory Board

Dr. Mohamed Ali Elgari (Chairman)

Dr. Mohd Daud Bakar (Executive Member)

Dr. Muhammad Amin Ali Qattan (Member)

Dr. Osama Al-Dereai (Member)

SUSTAINABILITY

NBF's resilient financial performance has been underpinned by its strong focus and commitment to sustainability and creating long-term economic value not only for itself but also for its business partners and the local community.

We summarise the key features of the business and the value generated for our stakeholders below:

CUSTOMERS BUSINESS MIX			
	Assets	**Income**	
Corporate Banking	57.2%	53.6%	
Business Banking	9.8%	21.9%	
Retail Banking	5.9%	7.4%	
Treasury and ALM	27.1%	17.2%	
Total	100.0%	100.0%	
SERVICE CHANNELS			
Branches 15	Network 37 ATMs	Online banking	
Relationship Managers / Sales team	3 subsidiaries	Call Centre	
PRODUCTS AND INCOME			
Loans / credit / Islamic financing	Deposits / Islamic deposits	Investments / Islamic investment products	Other financial services
Net interest income and net income from Islamic financing and investment activities	66.0% of operating income		
Non-interest income	34.0% of operating income		
COSTS			
Employee expenses	26.1% of operating income		
Depreciation and amortisation	1.7% of operating income		
Other administration expenses	9.0% of operating income		
RISK CHARGE			
Net impairment losses	17.2% of operating income		
NET RETURNS			
Net profit	46.1% of operating income		
Return on average equity	14.6%		
Dividends (cash and bonus shares)	31.7% of net profit		

Customer Focus

The Bank's customer-centric philosophy and commitment to exceptional service was well recognised in 2015, when it won nine awards. They include Banker Middle East's (BME) "Best Commercial Bank UAE", "Best Corporate Bank UAE" and "Best SME Customer Service" awards, and the "Best Local Bank – UAE" at the EMEA Finance Middle East Banking Awards 2015. NBF Capital, the Bank's fully-owned subsidiary, also won BME's "Best Corporate Advisory Service".

Whilst NBF carries out a customer satisfaction survey every year to gauge its service levels and generate customer feedback, it built on its research efforts this year with a brand perception study to find out what the local market thinks of NBF. The results were similarly encouraging, with the Bank being recognised for attributes such as a strong relationship management focus, superb executional capabilities, improved technological solutions and high levels of customer retention. The survey also provided valuable insights into new opportunities for improving the Bank's customer experience and market share which are reflected in future priorities and strategies.

The Bank continues to focus on technology and process automation to improve customer experience:

- NBF was a key partner to the Government of Fujairah's (GOF) Tasdeed pre-paid card project. The Bank was tasked to develop the infrastructural framework that would allow Tasdeed card holders to make cashless payments for various GOF services. Tasdeed will play a critical role in GOF's revenue collection process and introduce greater convenience to the residents of Fujairah.
- The Islamic banking module of NBF Direct, the Bank's proprietary Internet banking service, was successfully implemented, adding greater convenience to our customers and, like the Tasdeed project, underscores the Bank's strong technical background.
- The Bank's mobile banking solution is in the soft launch phase and is expected to be available for customers in Q1 2016.
- Further re-engineering and automation of the Bank's credit processes had significantly improved the Bank's response time to customer requirements.
- Leveraging on the Bank's business expertise and local insight, in September 2015 the Bank officially launched NBF Elham, a dedicated business unit that provides Emirati businesswomen with bespoke solutions.

People Focus

In a research study released by Hay Group in April 2015, NBF was ranked amongst the top banks in the region in terms of staff satisfaction. This was achieved by actively engaging and enabling the Bank's employees through a combination of wellness, social and talent development initiatives.

NBF's staff are one of the most motivated and engaged group of people in the local banking sector and across the region, a fact borne out by the Bank's fourth annual employee satisfaction survey conducted by Hay. The survey results this year have improved over the previous year, underscoring NBF's exceptional transparent and open culture and the value the Bank places on talent development and in providing a stimulating work environment.

NBF's commitment to Emiratisation has also received praise. The Bank was ranked amongst the top three in the region for its Emiratisation initiatives at the 7th Annual MENA HR Excellence Awards, and its Emiratisation ratio has improved from 42.0% to 42.4%. NBF continues to progressively build on its human resources practices, from training and development, performance and reward management to the development of an open and transparent organisational culture, all of which will ensure that NBF has in place a winning team for its ongoing success.

Corporate Social Responsibility (CSR)

NBF has long believed in the importance of giving back to the community. Since the formation of its Corporate Social Responsibility Committee (CSRC) in 2011, the Bank has adopted a comprehensive approach towards championing environmentally-friendly business practices and community engagement efforts.

Notable CSR initiatives over the course of 2015 include:

- A Ramadan Charity Drive in support of fasting workers in the Fujairah region.
- Sponsorship of the UAE Humanitarian Day.
- A staff donation campaign for the Nepal Earthquake Fund.
- The Bank was also a finalist at the Daman Corporate Health Awards for "Corporate Health and Wellness Initiative" and "CSR Employee Engagement of the Year" categories, underscoring its commitment towards sustainable growth and people engagement.

Future Priorities

Given the rapidly changing operating environment, the immediate focus for NBF is the management of short term risks and the current market volatility to ensure that the Bank maintains its financial stability and is undeterred from its strategic long-term growth plans.

The Bank will proactively balance its pace of growth and remain vigilant of the risks emanating from the current market. It will also continue to invest in longer term priorities:

- Continue growing our franchise by diversifying into new business lines and increasing our market share. Efforts will include the further commercialisation of NBF Islamic, an introduction of global transaction services and a priority banking proposition for our retail customers.
- Optimising the deployment of capital and investment spend to deliver profitable growth and further accumulate capital. A sharper focus on economic profit and capital allocation with risk-based pricing will be adopted.
- Further improving productivity and effectiveness through innovation and digitalisation. Our operating model will be enhanced further, with its centralisation in our home emirate of Fujairah being a focus, and an innovation lab has been established to spearhead our efforts at product and service innovation.
- Continuing our efforts at 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. To this end, a number of developmental platforms, such as NBF's high potential talent, management trainee and national development programmes, are already underway.

The NBF Board and management are confident that the Bank is well-positioned to continue its growth journey in the coming years and emerge from current market conditions much stronger as it has done in the past. This will be achieved through an unwavering focus on enhancing NBF's customer service standards and its product proposition. We will continue to adopt sound asset and liability management, embrace market best practices and practicing prudent risk management and good governance. With all this in mind, we look forward to another promising year for the Bank.

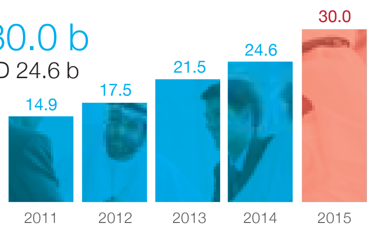
Easa Saleh Al Gurg, KCVO, CBE

NBF'S FIVE-YEAR PERFORMANCE SCORECARD

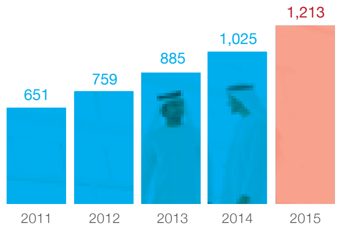
NBF has maintained higher than average industry growth rates over the past five years.

Assets (AED Billion)

AED 30.0 b
2014: AED 24.6 b



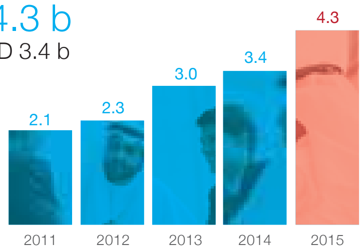
Operating Income (AED Million)



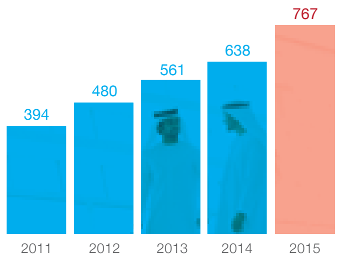
Operating income passed AED 1.2 billion – an all-time high in NBF's 31-year operating history.

Shareholders' Equity (AED Billion)

AED 4.3 b
2014: AED 3.4 b



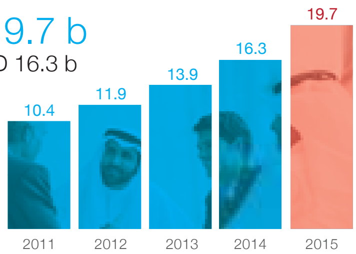
Operating Profit (AED Million)



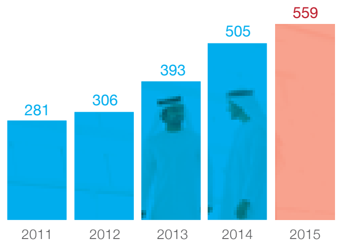
NBF's operating profit has been improving year-on-year on the back of impressive business performance and the strong execution of its strategy.

Loans and Advances (AED Billion)

AED 19.7 b
2014: AED 16.3 b



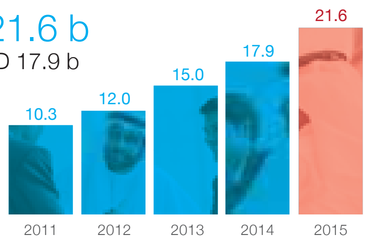
Net Profit (AED Million)



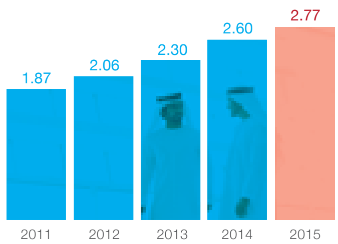
Our net profit has grown year-on-year at an average annual growth rate of 15.3% since 2011. This has contributed to an exceptional ROAE of 14.6% and consistent growth in book value per share.

Customer Deposits (AED Billion)

AED 21.6 b
2014: AED 17.9 b



Book Value Per Share (AED)



CORPORATE GOVERNANCE REPORT

Stakeholder engagement and investor relations continue to be of the utmost priority for NBF.

The NBF Board and the management are committed to complying with the highest ethical and corporate governance standards and international best practices. This approach is seen as a critical prerequisite for building a sustainable business and maintaining a high level of trust and integrity.

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 Bank's corporate governance structure includes well documented and regularly reviewed governance policies and procedures, which not only ensure that high levels of transparency and accountability are maintained, but also provide an appropriate functional independency and control environment from which to carry out its business activities.

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 fulfilment of its responsibilities. In all actions taken by the Board, the Directors ensure compliance with relevant laws, regulations, rules and best banking practices, as well as exercise their business judgment in what they reasonably believe to be in the best interests of the Bank.

The Board and the Bank's management continue to pro-actively review, develop and enhance the corporate governance standards in light of the changes in the Bank's strategy and its business, external environment and best practices followed in the market.

The Bank's formal disclosure policy is well established 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.

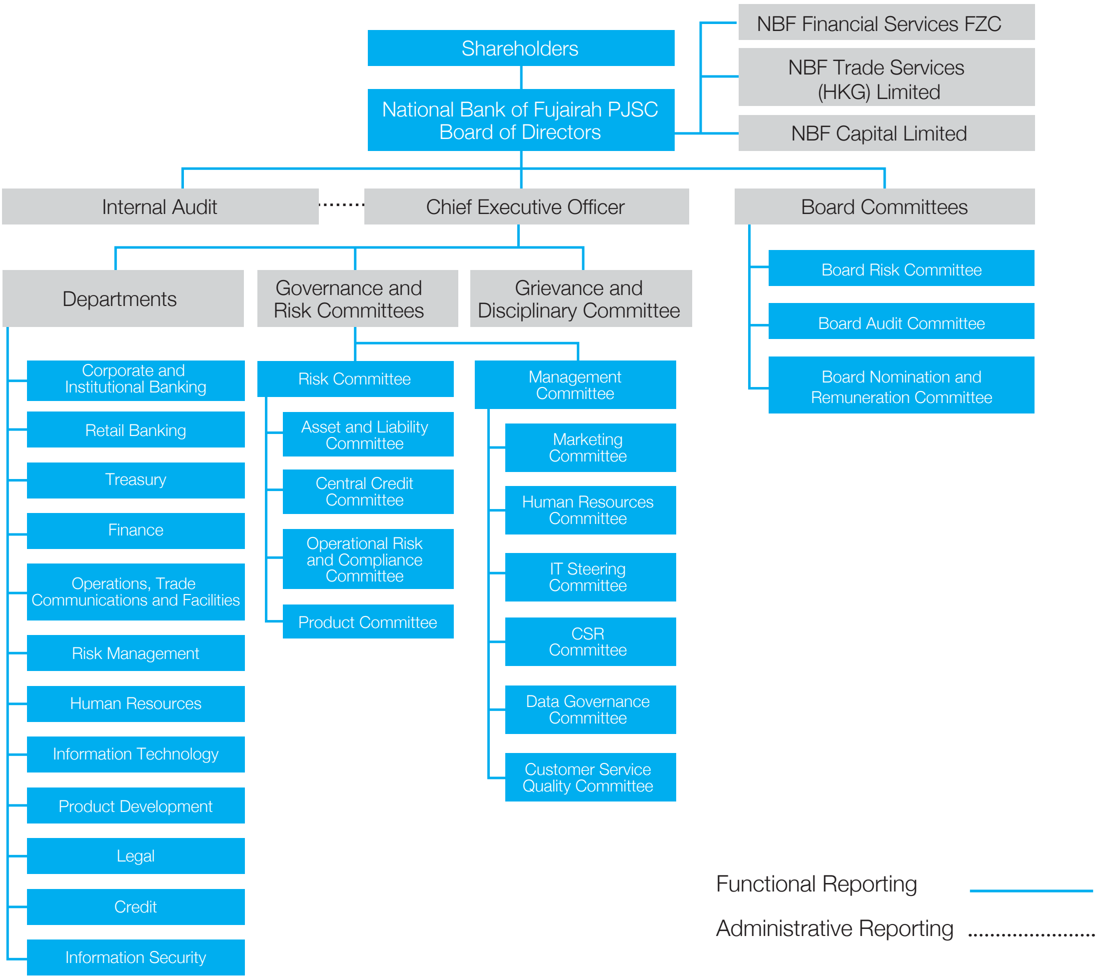
The corporate and governance documents accessible through the Bank's website are:

- The memorandum of association and articles of association.
- The corporate governance framework of the Board of Directors.
- The code of conduct and whistle blowing policy that encourages open communication, compliance, transparency and fair business practices.

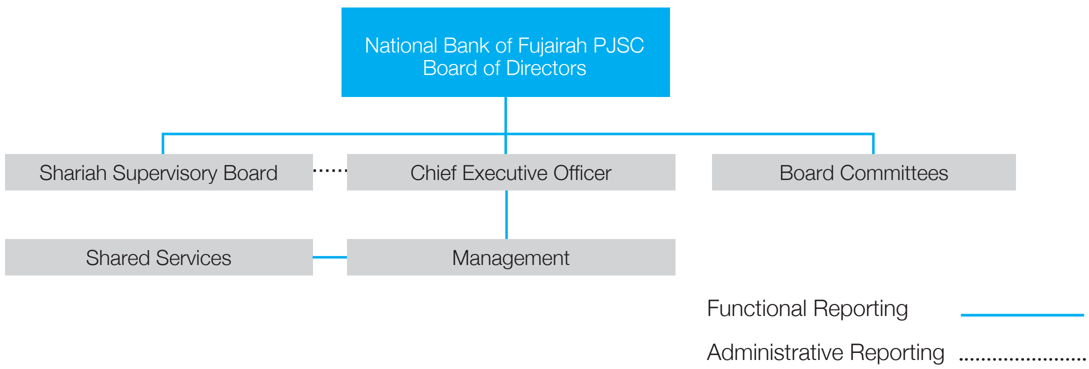
During the year, the Bank has further upgraded its website and enhanced its investors and governance disclosures through its investor relations and corporate governance web page. As part of its aspiration and on-going efforts to be recognised as one of the institutions that maintains high standards of corporate governance, the Bank continues to periodically and in a timely manner communicate financial and non-financial information to its various stakeholders - shareholders, investors, customers, employees, suppliers, regulators, government and the local communities through disclosures on its website (corporate governance / investor relations pages), annual and quarterly financial reports, investor pitch books and various press releases. The Bank also strives to continue to keep its staff aware of all new developments including the Bank's vision and mission, strategy and all new initiatives and other relevant information through various internal communication channels, staff off-sites and town hall meetings.

ORGANISATION

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



NBF ISLAMIC – GOVERNANCE STRUCTURE



SHAREHOLDERS

As at 31 December 2015, NBF's shareholders consist of:

Department of Industry and Economy - Government of Fujairah	40.13%
Easa Saleh Al Gurg LLC	21.66%
Investment Corporation of Dubai	9.78%
Fujairah Investment Company	5.22%
Citizens of the United Arab Emirates	23.21%

2015: During the year, 1,390,039 shares representing 0.12% of the Bank's shares were traded. The market capitalisation of the Bank is AED 5.5 billion (2014: 149,639,035 shares representing 13.60% of the Bank's shares were traded).

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

Finance Department

Telephone: +971 9 202 9210
Facsimile: +971 9 222 9858
E-mail: NBF-investorrelations@nbf.ae

Corporate Communications Department

Telephone: +971 4 397 1700
Facsimile: +971 4 397 5385

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

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 Risk Committee, Nomination and Remuneration Committee and Audit Committee to assist the Board in carrying out its responsibilities. In its continuous endeavour to evolve more effective and transparent corporate governance, the Board reconstituted the Board Committees with more robust functional objectives in 2015 in line with the best industry practices, 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.

Professional Development and Performance Evaluation

The continued development of the individual Directors of the Bank is fundamental for the effectiveness and efficiency of the functioning of the Board and to the long term sustainability and success of the organisation. During the year, the Board engaged the services of Institute of International Finance (IIF), Washington and Nestor Advisors, to ensure ongoing awareness on world class corporate governance principles and practices. The Board, as part of the programme, performed a self-evaluation through a comprehensive board self-evaluation questionnaire.

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 (2014: 8 members) who were elected on 19 March 2014 for a term of three years to fulfil their duties and responsibilities. The Chairman, Deputy Chairman and all Directors are Non-Executive Directors. The formation of the Board of Directors is governed by the Federal Law No (2) of 2015.

All 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.

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 of Department of Industry & Economy, Government of Fujairah Chairman of Fujairah Port Authority Chairman of Fujairah Petroleum Company Chairman of Fujairah National Group	Chairman
His Excellency Easa Saleh Al Gurg, KCVO, CBE 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	Deputy Chairman
Sheikh Hamad Bin Saleh Bin Mohamed Al Sharqi Vice Chairman of Fujairah National Group Chairman of Al Sharq Health Care (The Health Care Group of Fujairah National Group)	Member
Mr. Hussain Mirza Al Sayegh 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) Chairman of Jotun UAE Limited (LLC) Chairman of Jotun Powder Coatings Director of Marsh Emirates Insurance Brokerage Director of Mawarid Finance	Member
Dr. Sulaiman Mousa Al Jassim 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 Vice chairman of Sultan Alowais Culture Foundation in Dubai Chairman of Alkhaleej Investment Education Services Member of Board of Abu Dhabi University	Member
Mr. Saif Sultan Al Salami Managing Director of Fujairah National Group Board Member of Al Fujairah National Insurance Company Managing Director of Fujairah Investment Company	Member
Mr. Mohamed Obaid Bin Majed Al Aleeli Director General of Department of Industry & Economy, Government of Fujairah	Member
Mr. Abdulla Fareed Al Gurg 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	Member

Directors' Interests in the Bank's Shares

Name (Board of Directors)	Shareholding at 1 Jan 2015	Shareholding at 31 Dec 2015	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	1,129,713	7.5%
Saif Sultan Al Salami	–	–	–
Mohamed Obaid Bin Majed Al Aleeli	267,845	287,933	7.5%
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, operational and compliance 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.

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:

- 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 Internal Capital Adequacy Assessment Process (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.
- 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 Audit Committee of the Board, the Committee receives and considers reports and recommendations from the Head of Internal Audit and the external auditors. Further, receives and considers 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.
- 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.

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.
- 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 2015, 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' on the next page provides details of membership and meetings of the Board and Board Committees in 2015.

Board and Board Committees' membership and meetings

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

C: Chairman DC: Deputy Chairman M: Member I: Invitees * Independent Professional Member ** Current HOIA – Kevin Taylor

All principal members of the management team present their businesses' performance, risk and strategy to the full board at least once in a year.

With effect from 2015, the Board has decided to assume credit and investment approval responsibilities directly and dissolved the Executive Committee of the Board. Credit applications forwarded to Board for approval by circulation were 134.

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 2015, the fee was AED 2.75 million, which was charged to the statement of income, and is 0.5% of net profit attributed to shareholders of the Bank.

Board member remuneration paid during 2015 for year 2014	Directors' 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 and 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 analyse 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, 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, overseeing 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 and any changes to existing 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 recommend 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.

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 organisation 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 technology 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 prioritisation 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 the 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 organisational 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 analyse 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 18 March 2015. The fee for external audit work for the audit of the Bank and its subsidiaries for the year ended 31 December 2015 was AED 619,479 (plus out-of-pocket expenses).

PricewaterhouseCoopers
Emaar Square, Building 4, Level 8
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Telephone: +971 4 304 3100
Facsimile: +971 4 330 4100

INDEPENDENT AUDITORS'
REPORT

NBF maintains its commitment to the highest levels of transparency and governance.

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 2015 and the consolidated statement of income, statement of comprehensive income, statement of cash flows and statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

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 their preparation in compliance with the applicable provisions of the UAE Federal Law No (2) of 2015, 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.

Auditor's 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 auditor's 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 2015, 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 and Regulatory Requirements

As required by the UAE Federal Law No (2) of 2015, we report that:

I. We have obtained all the information we considered necessary for the purposes of our audit.

II. The consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No (2) of 2015.

III. The Group has maintained proper books of account.

IV. The financial information included in the Chairman's and Directors' report is consistent with the books of account of the Group.

V. As disclosed in note 9 to the consolidated financial statements, the Group has not purchased or invested in any shares during the year ended 31 December 2015.

VI. Note 28 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted.

VII. Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2015 any of the applicable provisions of the UAE Federal Law No (2) of 2015 or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2015.

VIII. Note 26 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2015.

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
20 January 2016

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

GROUP FINANCIAL STATEMENTS

The bank takes pride in its ability to consistently deliver value to its shareholders, and this year is no exception.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Note	2015 AED'000	2014 AED'000
Assets			
Cash and balances with the UAE Central Bank	7	4,505,567	4,296,469
Due from banks and financial institutions	8	2,921,797	1,912,892
Investments and Islamic instruments	9	1,407,168	598,136
Loans and advances and Islamic financing receivables	10	19,688,336	16,328,448
Property and equipment and capital work-in-progress	12	119,554	98,264
Intangible assets	13	22,913	26,667
Other assets	14	1,367,821	1,325,438
Total assets		**30,033,156**	**24,586,314**
Liabilities			
Due to banks	15	873,252	680,835
Customer deposits and Islamic customer deposits	16	21,612,534	17,931,731
Term borrowings	15	1,755,730	1,173,160
Other liabilities	17	1,512,023	1,436,161
Total liabilities		**25,753,539**	**21,221,887**
Shareholders' equity			
Share capital	18	1,182,500	1,100,000
Statutory reserve	18	457,320	403,126
Special reserve	18	352,320	298,126
Available-for-sale revaluation reserve		(7,783)	(689)
Proposed cash dividends	18	88,688	82,500
Proposed bonus issue	18	88,688	82,500
Retained earnings		1,117,884	898,864
Tier 1 capital notes	19	1,000,000	500,000
Total shareholders' equity		**4,279,617**	**3,364,427**
Total liabilities and shareholders' equity		**30,033,156**	**24,586,314**

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 20 January 2016 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 33 to 73 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on page 25.

CONSOLIDATED STATEMENT OF INCOME

For the year ended 31 December 2015

	Note	2015 AED'000	2014 AED'000
Interest income and income from Islamic financing and investment activities	20	1,085,409	928,689
Interest expense and distribution to Islamic depositors	21	(284,105)	(247,616)
Net interest income and net income from Islamic financing and investment activities		**801,304**	**681,073**
Net fees and commission income	22	294,140	252,068
Foreign exchange and derivatives income		90,956	70,779
Income from investments	23	2,707	5,148
Other operating income	24	23,990	16,140
Operating income		**1,213,097**	**1,025,208**
Operating expenses			
Employee benefits expense	25	(316,887)	(287,876)
Depreciation and amortisation	12, 13	(20,560)	(18,748)
Other operating expenses		(108,798)	(80,792)
Total operating expenses		**(446,245)**	**(387,416)**
Operating profit		**766,852**	**637,792**
Net impairment losses	10	(208,092)	(132,354)
Net profit for the year		**558,760**	**505,438**
Earnings per share (basic and diluted)	27	**AED 0.43**	**AED 0.40**

Appropriations have been reflected in consolidated statement of changes in equity.
The notes on pages 33 to 73 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on page 25.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015 AED'000	2014 AED'000
Net profit for the year	**558,760**	**505,438**
Other comprehensive income:		
Items that are or may be re-classified subsequently to the statement of income		
Changes in available-for-sale investments:		
Net fair value gains on disposal of available-for-sale investments	(2,950)	(5,313)
Net changes in fair value of available-for-sale investments	(4,144)	6,488
Net change in available-for-sale investments	**(7,094)**	**1,175**
Total comprehensive income for the year	**551,666**	**506,613**

The notes on pages 33 to 73 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on page 25.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Note	2015 AED'000	2014 AED'000
Operating Activities			
Net profit for the year		**558,760**	**505,438**
Adjustments for:			
Depreciation and amortisation		20,560	18,748
Provision for employee end of service and other long term benefits		13,749	12,151
Gain on disposal of property and equipment		-	(100)
Net impairment losses		208,092	132,354
Net fair value gains on disposal of investments		(2,950)	(5,313)
Net changes in fair value of investments at fair value through profit or loss		243	165
Cash flow from operating activities before changes in operating assets and liabilities and payment of employee end of service and other long term benefits		**798,454**	**663,443**
Payment of employee end of service and other long term benefits		(8,589)	(8,938)
Change in statutory reserve with the UAE Central Bank		(315,609)	(150,493)
Change in due from banks and financial institutions		(200,609)	(551,599)
Change in loans and advances and Islamic financing receivables		(3,567,980)	(2,596,105)
Change in other assets		(42,383)	(202,890)
Change in due to banks		182,885	(107,161)
Change in customer deposits and Islamic customer deposits		3,680,803	2,934,608
Change in other liabilities		70,702	233,829
Net cash generated from operating activities		**597,674**	**214,694**
Investing activities			
Purchase of property and equipment, intangible assets and capital work-in-progress		(38,096)	(35,363)
Proceeds from sale of property and equipment		-	100
Purchase of investments and Islamic instruments		(1,377,818)	(861,694)
Proceeds from sale of investments and Islamic instruments		564,399	838,395
Net cash used in investing activities		**(851,515)**	**(58,562)**
Financing activities			
Proceeds from term borrowings		988,430	589,510
Repayment of term borrowings		(405,860)	(1,046,805)
Cash dividends		(82,500)	(137,500)
Proceeds from issue of Tier 1 capital notes		500,000	-
Tier 1 capital notes coupon paid		(52,438)	(34,220)
Tier 1 capital notes issuance cost		(1,538)	-
Net cash generated from / (used in) financing activities		**946,094**	**(629,015)**
Net change in cash and cash equivalents		**692,253**	**(472,883)**
Cash and cash equivalents at beginning of the year		3,749,601	4,222,484
Cash and cash equivalents at end of the year	29	**4,441,854**	**3,749,601**

The notes on pages 33 to 73 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on page 25.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	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 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**
At 1 January 2015	**1,100,000**	**403,126**	**298,126**	**898,864**	**(689)**	**165,000**	**500,000**	**3,364,427**
Total comprehensive income for the year	-	-	-	558,760	(7,094)	-	-	551,666
Issue of Tier 1 capital notes (note 19)	-	-	-	-	-	-	500,000	500,000
Tier 1 capital notes issuance cost (note 19)	-	-	-	(1,538)	-	-	-	(1,538)
Tier 1 capital notes coupon paid (note 19)	-	-	-	(52,438)	-	-	-	(52,438)
Proposed cash dividends	-	-	-	(88,688)	-	88,688	-	-
Proposed bonus issue	-	-	-	(88,688)	-	88,688	-	-
Transfer to reserves	-	54,194	54,194	(108,388)	-	-	-	-
2014 cash dividends paid	-	-	-	-	-	(82,500)	-	(82,500)
2014 bonus shares issued	82,500	-	-	-	-	(82,500)	-	-
At 31 December 2015	**1,182,500**	**457,320**	**352,320**	**1,117,884**	**(7,783)**	**177,376**	**1,000,000**	**4,279,617**

The notes on pages 33 to 73 form an integral part of these consolidated financial statements.
The report of the independent auditor is set out on page 25.

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.

UAE Federal Law No (2) of 2015 (Companies Law) which is applicable to the Group has come into effect from 1 July 2015. The Group is currently assessing and evaluating the relevant provisions of the Companies Law. It has twelve months from the effective date of the Companies Law to fully comply with the Companies Law under the transitional provisions set out therein.

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, PO 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.

Frequency and medium of disclosure

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

- Sending quarterly reviewed and annual audited 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.
- 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.

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 2015

New standards and significant amendments to standards applicable to 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. • 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**
Annual improvements 2013 • IFRS 13 'Fair value measurement' on clarification of the portfolio exemption in IFRS 13 - The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39, 'Financial instruments: Recognition and measurement' or IFRS 9, 'Financial instruments'.	**1 July 2014**
IAS 19, Defined benefit plans: Employee contributions The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employees' working lives. Management should consider how it will apply that model.	**1 July 2014**

There is no material impact of the above amendments on the consolidated financial statements of the Group.

There are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on 1 January 2015 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 2015 and not early adopted

New standards and significant amendments to standards applicable to the Group	Effective date
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 IAS 1, 'Presentation of financial statements' Disclosure initiative The amendments clarify that it may be necessary to disaggregate some of the line items specified in IAS 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance.	**1 January 2016**
Amendments to IFRS 10, 'Consolidated financial statements' 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**
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. • IAS 34, 'Interim financial reporting', regarding information disclosed elsewhere in the interim financial report. The amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.	**1 January 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 2018**

New standards and significant amendments to standards applicable to the Group	Effective date
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.

The Group has plans in place for adhering to 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 2015.

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 2015 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.
- 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.

Financial assets are categorised 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 categorised 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 recognised on the trade-date, the date on which the Group commits to purchase or sell the asset. Financial instruments are initially recognised 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 recognised at fair value, and transaction costs are expensed in the consolidated statement of income. Loans and advances are recognised when cash is advanced to the borrowers.

De-recognition

Financial assets are derecognised 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 amortised cost using the effective interest method. A financial liability is derecognised 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 recognised 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.

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.

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 recognised in the consolidated statement of income, the impairment loss is reversed, with the amount of the reversal recognised in the consolidated statement of income.

However, impairment losses recognised 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 recognised in fair value reserve.

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 recognised 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 recognised 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 receivables 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.

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 recognised 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 recognised 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 and equipment	4 years
Motor vehicles	3 years

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 recognised 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.

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 and Islamic instruments

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

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 management and 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 recognised amounts and it intends either to settle on a net basis or to realise 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 receivables, Islamic instruments and Islamic customer deposits

The Group engages in Shariah-compliant Islamic banking activities through a window called NBF Islamic. The Islamic operations were launched in 2014 and the various Islamic instruments described below are accounted for, disclosed and presented in accordance with the requirements of the underlying substance of the instruments and IFRS / IAS / IFRIC.

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 recognised 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 recognised 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.

Wakala

Wakala involves an agreement, based on the concept of Wakala Bil Istithmar, where the Group becomes the investment agent (Wakil) for its customers (Muwakkil) for deposit of their funds in the Wakala investment account to be invested in Shariah-compliant investment instruments. The funds are used to generate profit for the customer by investing in Islamic financing facilities to the Group's other customers or investing in other Shariah-compliant investment instruments.

Income generated from the financing and investment activities are paid to the customers and the Group recognises income in the form of a fixed Wakala fee. Where the income generated exceeds the anticipated profit rate, the Group recognises income in the form of performance fee.

Istisna' forward Ijara

Istisna' with forward Ijara structure involves an agreement which provides the customer with financing for building and construction of a Shariah-compliant asset; qualifying for an Ijara transaction. This broadly includes the condition that the asset should have an identified usufruct and is non-consumable. Although, the asset does not exist in its final form at the signing of the contract, the exact details and specifications of the asset shall be clearly described in both the Istisna' and forward Ijara documents.

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

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 categorised into the following risks:

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

The Group enhances its risk management culture, practices and processes proactively on an ongoing basis. The Bank has implemented the Basel II Internal Ratings Based (IRB) Approach which is used 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 Standardised Approach for its risk and capital management. The Internal Capital Adequacy Assessment Process (ICAAP) covers these 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 and the UAE Central Bank's new EIBOR regulations as they become applicable. The Group is always committed to the implementation of best practices and governance standards.

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 sets the risk appetite, policies and the enterprise-wide risk management and internal control framework. The Bank follows a three lines of defence 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 organisational 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 and Islamic financing receivables to customers and amounts due from banks and investments portfolio.

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

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 and financing review function within Risk Management Division is responsible for loan and financing 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 / quality. Independent departments are responsible for documentation, collateral management, custody and limit management, and audit review of the process is undertaken.

The credit risk management framework includes:

- Risk appetite and policy setting.
- An authorisation 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 authorisation 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.
- 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 specialised businesses like Marine and Energy and Precious metals / stones segments.

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

Sector analysis

An analysis of sector concentrations of credit risk arising from loans and advances and Islamic financing receivables at 31 December 2015 and 2014 is shown below:

Loans and advances and Islamic financing receivables

2015	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Impaired loans and financing receivables AED'000	Specific provision AED'000	Write-off (funded) AED'000	Past due but not Impaired	
							Upto 90 days AED'000	Above 90 days AED'000
Trade	8,953,114	1,885,974	10,839,088	274,846	173,647	60,843	152,515	-
Construction	1,160,004	3,418,925	4,578,929	66,982	52,810	-	48,780	-
Government	275,039	3,895	278,934	-	-	-	-	-
Manufacturing	4,014,217	826,128	4,840,345	184,260	148,410	14,748	101,694	-
Financial institutions	562,291	259,868	822,159	67,482	40,888	1,879	-	-
Service industries	2,467,638	194,688	2,662,326	293,306	153,140	-	3,823	-
Real estate	1,863,341	-	1,863,341	13,618	1,559	-	1,300	-
Individuals	1,446,915	55,355	1,502,270	78,670	54,576	1,264	1,727	-
Gross amount	**20,742,559**	**6,644,833**	**27,387,392**	**979,164**	**625,030**	**78,734**	**309,839**	**-**

2014	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Impaired loans and financing receivables AED'000	Specific provision AED'000	Write-off (funded) AED'000	Past due but not impaired	
							Upto 90 days AED'000	Above 90 days 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**	**-**

Geographic location analysis

Based on the location of the borrower, an analysis of geographic concentrations of credit risk arising out of loans and advances and Islamic financing receivables at 31 December 2015 and 2014 is shown below:

2015	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Impaired loans and financing receivables AED'000	Specific provision AED'000	Write-off (funded) AED'000	Past due but not Impaired	
							Upto 90 days AED'000	Above 90 days AED'000
Within UAE	20,213,457	6,366,617	26,580,074	911,217	583,677	76,855	309,839	-
GCC countries	111,704	18,114	129,818	67,349	40,755	1,879	-	-
Other	417,398	260,102	677,500	598	598	-	-	-
Total	**20,742,559**	**6,644,833**	**27,387,392**	**979,164**	**625,030**	**78,734**	**309,839**	**-**

2014	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Impaired loans and financing receivables AED'000	Specific provision AED'000	Write-off (funded) AED'000	Past due but not impaired	
							Upto 90 days AED'000	Above 90 days 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**	**-**

Currency wise analysis

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

	2015			2014		
	Funded AED'000	Unfunded AED'000	Gross exposure AED'000	Funded AED'000	Unfunded AED'000	Gross exposure AED'000
AED	17,276,636	4,793,885	22,070,521	14,242,949	4,538,438	18,781,387
USD	2,765,437	1,549,102	4,314,539	2,264,610	1,553,021	3,817,631
EUR	32,552	189,655	222,207	63,195	124,651	187,846
GBP	1,453	12,320	13,773	-	15,683	15,683
XAU	657,603	-	657,603	668,973	-	668,973
Others	8,878	99,871	108,749	13,586	144,541	158,127
Total	**20,742,559**	**6,644,833**	**27,387,392**	**17,253,313**	**6,376,334**	**23,629,647**

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 and Islamic financing portfolio is shown below:

Particulars	Loans and advances and Islamic financing receivables		Collaterals	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Individually impaired				
Pledged deposits	82,945	34,831	6,515	2,438
Debt / Equity securities	2,137	80,605	2,137	80,605
Property	115,692	137,611	104,065	124,111
Others	778,390	508,611	-	20,000
Gross amount	**979,164**	**761,658**	**112,717**	**227,154**
Impairment loss	**(625,030)**	**(430,918)**	**-**	**-**
Carrying amount	**354,134**	**330,740**	**112,717**	**227,154**
Past due but not impaired				
Pledged deposits	153,727	70,211	32,731	6,922
Debt / Equity securities	-	315	-	315
Property	85,200	35,136	29,508	30,291
Others	70,912	25,685	-	-
Gross amount	**309,839**	**131,347**	**62,239**	**37,528**
Impairment loss	**-**	**-**	**-**	**-**
Carrying amount	**309,839**	**131,347**	**62,239**	**37,528**

Particulars	Loans and advances and Islamic financing receivables		Collaterals	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Neither past due nor impaired				
Pledged deposits	6,587,203	5,776,576	2,030,712	1,258,371
Debt / Equity securities	42,356	82,727	42,356	82,727
Property	4,376,047	3,484,956	3,635,645	2,763,258
Others	8,447,950	7,016,049	-	-
Gross amount	**19,453,556**	**16,360,308**	**5,708,713**	**4,104,356**
Collective impairment provision	**(429,193)**	**(493,947)**	**-**	**-**
Carrying amount	**19,024,363**	**15,866,361**	**5,708,713**	**4,104,356**
Total	**19,688,336**	**16,328,448**	**5,883,669**	**4,369,038**
Renegotiated exposure	**1,478,744**	**998,620**	**546,273**	**248,301**
Contingent liabilities				
Pledged deposits	3,360,146	3,526,666	449,139	382,496
Others	3,284,687	2,849,668	312,974	215,673
Total	**6,644,833**	**6,376,334**	**762,113**	**598,169**

Past due but not impaired portfolio ageing is as follows:

	2015 AED'000	2014 AED'000
Less than 1 month	186,149	97,090
1 month to 3 months	123,690	34,257
Total	**309,839**	**131,347**

Credit quality

The credit quality of the loans and advances and Islamic financing receivables 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 categorisation of credit risk assets under the following risk classification / grading system:

Risk Grade	2015 AED'000	2014 AED'000
Neither past due nor impaired / Past due but not impaired (RR 1-19)		
Grades 1-18: Performing or normal	19,074,966	15,729,691
Grade 19: Other Loans Especially Mentioned (OLEM)	688,429	761,964
	19,763,395	**16,491,655**
Individually impaired (RR 20-22)		
Grade 20: Sub-standard	167,231	90,023
Grade 21: Doubtful	460,743	321,577
Grade 22: Loss	351,190	350,058
	979,164	**761,658**
Total	**20,742,559**	**17,253,313**

Impaired loans and advances and Islamic financing receivables

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

Past due but not impaired loans and advances and Islamic financing receivables

Loans and advances and Islamic financing receivables are recognised as past due but not impaired where contractual interest and profit 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.

Loans and advances and Islamic financing receivables with renegotiated terms

Loans and advances and Islamic financing receivables with renegotiated terms are loans and advances and Islamic financing receivables that have been rescheduled / restructured generally due to deterioration in the borrower's / financed parties' financial position and where the Group has made concessions that it would not otherwise consider. These loans and advances and Islamic financing receivables are not delinquent; however, impairment is recognised in accordance with IAS 39 to represent the benefits foregone by the Group. The impairment recognised 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 loans and advances and Islamic financing receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss allowance established for groups of homogenous assets in respect of losses that may have been incurred but have not been identified on loans and advances and Islamic financing receivables subject to individual assessment for impairment; and the general provision on total credit risk-weighted assets in line with the UAE Central

Bank's requirements. The methods of assessment of allowances for impairment have been summarised 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. The Bank's IRB approach and expected loss provision model is being aligned for the adoption and compliance with the requirements of IFRS 9.

Write-off policy

The Group writes off loans and advances and Islamic financing receivables balances (and any related allowances for impairment losses) when it has generally exhausted all possible efforts for collection and determines that the loans and advances and Islamic financing receivables 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.

The Group maintains a portfolio of short-term liquid assets, largely made up of cash and balances with the UAE Central Bank representing **15.0%** (2014: 17.5%) 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, due from banks and financial institutions and other inter-bank facilities, to ensure that sufficient liquidity is maintained both under normal conditions and simulated stress scenarios. **14.67%** (2014: 14.67%) of the Group's customer deposits and Islamic customer deposits are pledged.

The Group uses lending to stable resource ratio (LSRR) of 1:1 and eligible liquid assets ratio (ELAR) of 10%, which represents high quality liquid assets as stipulated by the UAE Central Bank, as key risk indicators and monitors them on a regular basis. The Group uses more prudent internal LSRR measure of 0.925:1 as a trigger point for action planning. During the year, these ratios were prudently managed:

	ELAR		LSRR	
	2015	2014	2015	2014
12 month - Average	17.67%	20.09%	87.11%	85.65%
12 month - Highest	20.90%	24.45%	92.22%	89.06%
12 month - Lowest	15.91%	17.54%	83.96%	80.32%

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.

Liquidity positions, key risk indicators and actions are discussed at 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. In preparation for compliance with Basel III requirements, the Group has implemented a system for calculating Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) in line with the UAE Central Bank's regulations and is working on strengthening processes and qualitative requirements proactively.

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 realisation. 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 and Islamic financing receivables 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 portfolio include available-for-sale investments which can be redeemed before their contractual maturity.

At 31 December 2015

	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
Cash and balances with the UAE Central Bank	2,330,567	-	1,250,000	850,000	75,000	-	4,505,567
Due from banks and financial institutions	1,429,594	814,812	485,461	191,930	-	-	2,921,797
Investments and Islamic instruments	3,688	-	23,871	228,772	1,079,402	71,435	1,407,168
Loans and advances and Islamic financing receivables	4,645,781	4,564,995	2,311,073	1,249,285	5,208,737	1,708,465	19,688,336
Property and equipment, capital work-in-progress and intangible assets	-	-	-	-	-	142,467	142,467
Other assets	271,810	796,061	225,734	59,563	14,653	-	1,367,821
Total assets	**8,681,440**	**6,175,868**	**4,296,139**	**2,579,550**	**6,377,792**	**1,922,367**	**30,033,156**
Due to banks	476,852	184,318	212,082	-	-	-	873,252
Customer deposits and Islamic customer deposits	9,167,561	3,649,053	4,848,292	1,895,668	2,051,960	-	21,612,534
Term borrowings	-	568,422	91,825	236,358	459,125	400,000	1,755,730
Other liabilities	271,810	940,263	225,734	59,563	14,653	-	1,512,023
Total shareholders' equity	-	-	-	-	-	4,279,617	4,279,617
Total liabilities and shareholders' equity	**9,916,223**	**5,342,056**	**5,377,933**	**2,191,589**	**2,525,738**	**4,679,617**	**30,033,156**
On Balance Sheet Gap	**(1,234,783)**	**833,812**	**(1,081,794)**	**387,961**	**3,852,054**	**(2,757,250)**	**-**
Cumulative Gap	**(1,234,783)**	**(400,971)**	**(1,482,765)**	**(1,094,804)**	**2,757,250**	**-**	**-**

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
Total assets	**6,469,784**	**5,494,807**	**3,484,119**	**2,225,405**	**5,410,325**	**1,501,874**	**24,586,314**
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**	**-**	**-**

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, analysed 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.

At 31 December 2015

	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	5,318,574	-	-	-	-	-	5,318,574
Letters of credit	214,051	722,966	243,227	96,961	49,054	-	1,326,259
Forward foreign exchange contracts	1,834,838	1,369,315	2,498,960	2,314,233	-	-	8,017,346
Currency options	13,442	54,678	155,340	669,583	-	-	893,043
Interest rate derivatives	-	-	-	186,095	1,169,099	1,292,407	2,647,601
Commodity derivatives	225,319	610,905	36,662	82,248	-	-	955,134
	7,606,224	**2,757,864**	**2,934,189**	**3,349,120**	**1,218,153**	**1,292,407**	**19,157,957**

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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**

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

	2015			2014		
	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	19,937	19,479	458	20,445	13,692	6,753
Currency options	4,593	4,593	-	32,112	32,112	-
Interest rate derivatives	23,565	20,870	2,695	10,846	6,403	4,443
Commodity derivatives	72,110	52,476	19,634	18,634	20,728	(2,094)
	120,205	**97,418**	**22,787**	**82,037**	**72,935**	**9,102**

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 annualised 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 regulatory capital for 2015 and 2014:

	Assumed level of change %	Impact on net income and regulatory capital 2015 AED'000	Impact on net income and regulatory capital 2014 AED'000
Investments carried at fair value through the income statement			
Reference benchmarks: Fair value of managed funds	10%	855	958

	Assumed level of change %	Impact on equity 2015 AED'000	Impact on equity 2014 AED'000
Available for sale investments			
Reference benchmarks: Quoted debt securities / Islamic sukuks	10%	97,028	47,381
Investments in listed equity	10%	101	116

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 analyses their impact on annualised 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 analysing 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			
2015 (AED in 000s)	190,676	2,723	33,846
2014 (AED in 000s)	215,929	1,135	16,402
Assumed change in exchange rates	5%	5%	5%
Impact on exchange income from increase in exchange rates			
2015 (AED in 000s)	9,534	136	1,692
2014 (AED in 000s)	10,796	57	820
Impact on exchange income from decrease in exchange rates			
2015 (AED in 000s)	(9,534)	(136)	(1,692)
2014 (AED in 000s)	(10,796)	(57)	(820)

At 31 December 2015, the impact on exchange income due to change in exchange rate by 5% is **±12.5%** (2014: ±16.5%). Excluding the impact of US$ open position, the impact is **±2.0%** (2014: ±1.2%).

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 and advances and Islamic financing receivables that are priced on a fixed rate basis constitute **7.6%** (2014: 11.2%) of the total loans and advances and Islamic financing receivables 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 / profit rates	±100 bps	±100 bps	±100 bps	±100 bps	±100 bps
Impact on net interest income and net income from Islamic financing and investment activities from increase in interest / profit rates					
2015 (AED in 000s)	47,415	19,157	1,270	(4,738)	63,104
2014 (AED in 000s)	35,673	10,809	1,300	444	48,226
Impact on net interest income and net income from Islamic financing and investment activities from decrease in interest / profit rates					
2015 (AED in 000s)	(40,624)	(14,747)	(679)	4,350	(51,700)
2014 (AED in 000s)	(24,808)	(11,836)	(1,026)	2,390	(35,279)

An impact of 5% or higher on regulatory capital is considered as a trigger event based on which an action plan is agreed. At 31 December 2015, the impact of 25 bps, 50 bps and 100 bps shift analysis on net interest income and net income from Islamic financing and investment activities and regulatory capital is as follows:

Impact on net interest income and net income from Islamic financing and investment activities				
	2015 (AED in 000s)		**2014 (AED in 000s)**	
bps	Upward shift	Downward shift	Upward shift	Downward shift
25	1.97%	-1.97%	1.77%	-1.76%
50	3.94%	-3.70%	3.54%	-3.17%
100	7.88%	-6.45%	7.08%	-5.18%
Impact on regulatory capital				
	2015 (AED in 000s)		**2014 (AED in 000s)**	
bps	Upward shift	Downward shift	Upward shift	Downward shift
25	0.32%	-0.32%	0.31%	-0.30%
50	0.64%	-0.60%	0.61%	-0.55%
100	1.29%	-1.05%	1.22%	-0.89%

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) and Risk Committee (RC) 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 2015

	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	Non interest bearing items AED'000	Total AED'000
Cash and balances with the UAE Central Bank	200,000	-	1,250,000	850,000	75,000	-	2,130,567	4,505,567
Due from banks and financial institutions	922,920	844,012	494,212	118,920	-	-	541,733	2,921,797
Investments and Islamic instruments	112,074	542,278	23,871	63,158	456,096	199,906	9,785	1,407,168
Loans and advances and Islamic financing receivables	7,726,975	7,028,326	2,560,550	738,263	926,598	780,894	(73,270)	19,688,336
Other assets	-	-	-	-	-	-	1,352,639	1,352,639
Total financial assets	**8,961,969**	**8,414,616**	**4,328,633**	**1,770,341**	**1,457,694**	**980,800**	**3,961,454**	**29,875,507**
Due to banks	466,434	139,195	252,471	4,734	-	-	10,418	873,252
Customer deposits and Islamic customer deposits	3,673,465	3,460,100	5,255,794	1,914,240	2,053,036	-	5,255,899	21,612,534
Term borrowings	199,628	1,464,277	91,825	-	-	-	-	1,755,730
Other liabilities	-	-	-	-	-	-	1,438,654	1,438,654
Total financial liabilities	**4,339,527**	**5,063,572**	**5,600,090**	**1,918,974**	**2,053,036**	**-**	**6,704,971**	**25,680,170**
Interest rate sensitivity gap								
On-balance Sheet	**4,622,442**	**3,351,044**	**(1,271,457)**	**(148,633)**	**(595,342)**	**980,800**	**(2,743,517)**	
Off-balance Sheet	**1,317,608**	**851,760**	**293,573**	**183,650**	**1,010**	**-**	**9,865,523**	
Cumulative	**5,940,050**	**10,142,854**	**9,164,970**	**9,199,987**	**8,605,655**	**9,586,455**	**16,708,461**	

At 31 December 2014

Cumulative interest rate sensitivity gap	**2,907,809**	**7,598,076**	**8,090,008**	**7,226,974**	**7,135,031**	**8,033,130**	**15,943,382**

Interest rate yields

The average earning on placements and balances with banks was **0.81%** (2014: 0.61%), on loans and advances and Islamic financing receivables was **5.22%** (2014: 5.38%) and on investments portfolio was **1.71%** (2014: 1.78%). The average cost of customer deposits and Islamic customer deposits was **1.18%** (2014: 1.25%) and of due to banks and term borrowings was **1.87%** (2014: 1.91%).

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 Standardised 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.
- To provide for any unforeseen losses.

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 Standardised 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 % analysed in two tiers, of which Tier 1 capital adequacy ratio must not be less than 8%. The Group has complied with its capital adequacy ratio calculation in accordance with Basel II Standardised Approach for credit, market and operational risks.

The Group's regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, statutory reserve, special reserve, retained earnings and Tier 1 capital notes. In preparation of Basel III compliance, the Group also monitors the common equity ratio separately within Tier 1 capital which excludes Tier 1 capital notes.
- Tier 2 capital, which includes fair value reserves relating to unrealised 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.
- Collective impairment provision shall not exceed 1.25% of total credit risk-weighted assets.

	2015 AED'000	2014 AED'000
Tier 1 Capital		
Share capital	1,182,500	1,100,000
Statutory reserve	457,320	403,126
Special reserve	352,320	298,126
Retained earnings	1,206,572	981,364
Tier 1 capital notes	1,000,000	500,000
Total Tier 1	**4,198,712**	**3,282,616**
Tier 2 Capital		
Available-for-sale revaluation reserve	(7,783)	(689)
Subordinated facilities (note 15.2)	400,000	400,000
Collective impairment provision	312,377	262,253
Total Tier 2	**704,594**	**661,564**
Deductions from Tier 1 and Tier 2 Capital		
Investments in unconsolidated subsidiaries	-	-
Total capital base (a)	**4,903,306**	**3,944,180**

Risk-weighted assets

	2015 Risk-weighted equivalent AED'000	2014 Risk-weighted equivalent AED'000
Credit risk	24,990,154	20,980,215
Market risk	35,928	8,688
Operational risk	1,677,033	1,424,312
Total risk-weighted assets (b)	26,703,115	22,413,215
Capital adequacy ratio (a) / (b) - %	18.36	17.60
Tier 1 ratio - %	15.72	14.64
Common equity ratio - %	11.98	12.42

The Group has prepared an ICAAP document and submitted to the UAE Central Bank for the years ended December 2014 and December 2015. 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.
- Capital planning and budgeting.

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 2015 was **15.55%** (2014: 15.22%). If the Bank were to fully adopt the FIRB approach, its capital adequacy would improve to **19.64%** (2014: 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 UAE Central Bank Basel II Capital Adequacy Framework covering the Standardised 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% risk 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 is 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 UAE Central Bank Basel II guidelines. Claims which do not meet the criteria are assigned risk weights of 100%.

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

Equity portfolios

Equity in banking book is risk weighted at 150%.

Other exposures

These are risk weighted at 100%.

Credit risk and risk weights

2015 (AED'000)	On and off balance sheet	Credit risk mitigation (CRM)			Risk-weighted assets
	Gross outstanding	Exposure before CRM	CRM	After CRM	
Claims on sovereigns	4,597,953	4,597,953	-	4,597,953	711
Claims on banks	4,418,496	4,418,496	-	4,275,245	1,742,762
Claims on corporates and GREs	24,474,496	24,474,496	2,451,979	2,422,074	19,303,784
Regulatory retail exposures	1,634,857	1,634,857	43,628	1,582,991	1,590,339
Residential retail portfolio	779,066	779,066	5,488	779,066	773,578
Commercial real estate	869,877	869,877	-	869,877	869,877
Past due exposures	1,113,863	408,504	6,525	392,408	385,882
Higher-risk categories	9,559	9,559	-	9,559	14,338
Other exposures	628,530	628,530	-	628,530	308,883
Total	**38,526,697**	**37,821,338**	**2,507,620**	**15,557,703**	**24,990,154**

2014 (AED'000)	On and off balance sheet Gross outstanding	Credit risk mitigation (CRM) Exposure before CRM	CRM	After CRM	Risk-weighted assets
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**

On and off balance sheet exposures include unutilised credit limits which are revocable at the discretion of the Bank amounting to **AED 19,105 million** (2014: AED 14,249 million).

The Group uses the following external credit assessment institutions (ECAIs): Standards & Poor's, 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 Standardised methodology, is as follows:

	2015 AED'000	2014 AED'000
Interest rate risk		
» Specific interest rate risk	-	-
» General interest rate risk	-	-
Equity position risk	-	-
Foreign exchange risk	4,311	1,043
Option risk	-	-
Total market risk capital charge	**4,311**	**1,043**
Market risk – risk-weighted assets	**35,928**	**8,688**

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** (2014: 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 Standardised Approach. The total capital charge is calculated by multiplying the specified eight business lines' three (3) year average net interest income and net income from Islamic financing and investment activities 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:

2015	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	-	-	-	-	4,505,567	4,505,567
Due from banks and financial institutions	-	-	-	-	2,921,797	2,921,797
Investments - at fair value	8,553	971,289	-	-	-	979,842
Investments and Islamic instruments – at cost	-	-	427,326	-	-	427,326
Loans and advances and Islamic financing receivables	-	-	-	19,688,336	-	19,688,336
Other assets	-	-	-	-	1,352,639	1,352,639
Total financial assets	**8,553**	**971,289**	**427,326**	**19,688,336**	**8,780,003**	**29,875,507**
Financial liabilities						
Due to banks	-	-	-	-	873,252	873,252
Customer deposits and Islamic customer deposits	1,010	-	-	-	21,611,524	21,612,534
Term borrowings	-	-	-	-	1,755,730	1,755,730
Other liabilities	-	-	-	-	1,438,654	1,438,654
Total financial liabilities	**1,010**	**-**	**-**	**-**	**25,679,160**	**25,680,170**

2014	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	-	-	-	-	4,296,469	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 and Islamic instruments – at cost	-	-	113,598	-	-	113,598
Loans and advances and Islamic financing receivables	-	-	-	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 and Islamic 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**

6.2 Fair value measurement – fair value hierarchy:

2015	Notional AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments and Islamic instruments				
» Debt securities / Islamic sukuks	-	970,284	-	-
» Other investments	-	1,005	8,553	-
Customer deposits and Islamic customer deposits	-	-	1,010	-
Forward foreign exchange contracts	8,017,346	-	458	-
Currency options	893,043	-	-	-
Interest rate derivatives	2,647,601	-	2,695	-
Commodity derivatives	955,134	-	19,634	-

2014	Notional AED'000	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
Investments and Islamic instruments				
» Debt securities / Islamic sukuks	-	473,805	-	-
» Other investments	-	1,157	9,576	-
Customer deposits and Islamic customer deposits	-	-	1,010	-
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)	-

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

	2015 AED'000	2014 AED'000
Cash on hand	319,647	247,308
Certificates of deposit (CDs) with the UAE Central Bank	2,375,000	2,760,000
Other balances with the UAE Central Bank (note 7.1)	1,810,920	1,289,161
	4,505,567	**4,296,469**

7.1 Other balances with the UAE Central Bank include regulatory cash reserve deposits of **AED 1,013.2 million** (2014: AED 697.6 million).

8. Due from Banks and Financial Institutions

8.1 By type

	2015 AED'000	2014 AED'000
Placements	1,422,752	781,405
Balance in current accounts / term deposits	468,723	203,039
Bills discounted	957,312	928,448
Certificate of deposits	73,010	-
	2,921,797	**1,912,892**

As at 31 December 2015, Balance in current accounts / term deposits include cash collateral of **AED 12.67 million** (2014: AED 26.92 million) in respect of negative fair value of derivatives, in accordance with the Credit Support Annex (CSA) agreements with the interbank counterparties.

8.2 By geographical area

	2015 AED'000	2014 AED'000
Within UAE	1,162,278	1,301,214
GCC countries	505,467	81,849
Others	1,254,052	529,829
	2,921,797	**1,912,892**

8.3 The currency wise analysis is set out below:

	2015 AED'000	2014 AED'000
AED	909,134	716,627
USD	1,687,853	865,632
EUR	196,727	137,073
GBP	39,649	40,220
Others	88,434	153,340
	2,921,797	**1,912,892**

9. Investments and Islamic Instruments

	2015 AED'000	2014 AED'000
Investments at fair value through profit or loss (FVTPL) (note 9.1)	**8,553**	**9,576**
Available-for-sale (AFS)		
Debt securities / Islamic sukuks (note 9.2)	970,284	473,805
Other investments	1,005	1,157
	971,289	**474,962**
Held-to-maturity (HTM)		
Debt securities / Islamic sukuks (note 9.2)	427,326	113,598
	1,407,168	**598,136**

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 1,397.6 million** (2014: AED 587.4 million) represent the Group's investments in bonds and notes which are quoted on recognised exchanges and for which prices are available on internationally recognised platforms of Reuters and Bloomberg and are liquid in normal market conditions. The debt securities portfolio includes floating rate securities amounting to **AED 650.7 million** (2014: AED 219.2 million).

The portfolio includes Islamic sukuks amounting to **AED 270.27 million** (2014: Nil).

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

	2015 AED'000	2014 AED'000
Government	168,379	73,061
Banks and financial institutions	1,081,440	459,996
Others	157,349	65,079
	1,407,168	**598,136**

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

2015	Debt securities / Islamic sukuks AED'000	Other investments AED'000	Total AED'000
AA+	154,266	-	154,266
AA	18,652	-	18,652
AA-	146,560	-	146,560
A+	187,500	-	187,500
A	220,972	-	220,972
A-	89,208	-	89,208
BBB+	312,147	-	312,147
BB+	54,835	-	54,835
BBB-	-	1,005	1,005
Unrated	213,470	8,553	222,023
	1,397,610	**9,558**	**1,407,168**

2014	Debt securities / Islamic sukuks 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**

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

	2015 AED'000	2014 AED'000
Within UAE	258,887	77,694
Others	1,148,281	520,442
	1,407,168	**598,136**

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

	2015 AED'000	2014 AED'000
AED	-	10,009
USD	1,214,960	494,737
EUR	165,037	64,759
GBP	27,171	28,631
	1,407,168	**598,136**

10. Loans and Advances and Islamic Financing Receivables

10.1 Loans and advances and Islamic financing receivables by type:

	2015 AED'000	2014 AED'000
Overdrafts	1,591,468	1,571,268
Term loans	13,250,914	10,396,022
Loans against trust receipts	3,777,454	3,397,047
Bills discounted	1,696,328	1,383,944
Bills drawn under letters of credit	426,395	505,032
	20,742,559	**17,253,313**
Allowance for impairment losses (note 10.3)	(1,054,223)	(924,865)
Net loans and advances and Islamic financing receivables	**19,688,336**	**16,328,448**

10.2 Loans and advances and Islamic financing receivables include Murabaha Tawarruq and Ijara financing activities amounting to **AED 587.58 million** (2014: AED 22.95 million) provided through a Shariah-compliant Islamic window, NBF Islamic.

10.3 Allowance for impairment losses on loans and advances and Islamic financing receivables

	2015 AED'000	2014 AED'000
Movement in allowances for impairment losses		
Balance at 1 January	924,865	815,049
Net allowances for impairment losses	208,092	132,354
Written-off during the year	(78,734)	(36,435)
Restructuring impact	-	13,897
Balance at 31 December	**1,054,223**	**924,865**

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.

Contingent liabilities	2015 AED'000	2014 AED'000
Letters of credit covering movement of goods	1,326,259	1,341,292
Financial guarantees and other direct credit substitutes	763,588	643,322
Bid bonds, performance bonds and other transaction related contingencies	4,554,986	4,391,720
	6,644,833	**6,376,334**
Commitments	**AED'000**	**AED'000**
Undrawn irrevocable commitments – credit related	467,333	958,909
Others	54,969	58,027
	522,302	**1,016,936**
	7,167,135	**7,393,270**

The total undrawn credit limits which are revocable at the discretion of the Bank amount to **AED 19,105 million** (2014: AED 14,249 million). Many of the contingent liabilities and commitments will expire without being funded in whole or in part. Therefore, the amounts do not necessarily represent expected future cash flows.

12. Property and Equipment and Capital Work-In-Progress

AED'000	Freehold land	Buildings and leasehold improvements	Motor vehicles, furniture and equipment	Total
Cost				
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**
At 1 January 2015	**14,066**	**117,815**	**70,897**	**202,778**
Additions	-	8,569	11,924	20,493
Disposals	-	-	-	-
At 31 December 2015	**14,066**	**126,384**	**82,821**	**223,271**
Depreciation				
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**
At 1 January 2015	**-**	**63,840**	**55,356**	**119,196**
Charge for the year	-	5,281	6,996	12,277
On disposals	-	-	-	-
At 31 December 2015	**-**	**69,121**	**62,352**	**131,473**
Net book value				
At 31 December 2015	**14,066**	**57,263**	**20,469**	**91,798**
At 31 December 2014	**14,066**	**53,975**	**15,541**	**83,582**

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 (2014: AED 1 each).

12.1 Capital work-in-progress

	2015 AED'000	2014 AED'000
Premises, equipment and others (note 12.2)	12,528	11,384
Intangible assets (note 12.3)	15,228	3,298
	27,756	**14,682**

12.2 Premises and equipment costs were incurred in respect of the Group's branches and other equipment.

12.3 The cost of intangible assets is in respect of the purchase of software and directly attributable costs relating to upgrades on Internet banking, T24, EDMS and MS Office and other software purchases. (2014: 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).

13. Intangible Assets

	2015 AED'000	2014 AED'000
Cost		
At 1 January	65,424	54,626
Additions	4,529	11,206
Disposals	-	(408)
At 31 December	**69,953**	**65,424**
Amortisation		
At 1 January	38,757	32,075
Charge for the year	8,283	6,682
At 31 December	**47,040**	**38,757**
Net book value	**22,913**	**26,667**

The cost of intangible assets comprises the cost of the Group's version upgrade of the core banking software, license cost including customisation 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 Treasury application functionality for front, middle and back office, Mobile banking and other software purchases. The cost is being amortised over the estimated useful life of 5 years.

14. Other Assets

	2015 AED'000	2014 AED'000
Accrued interest / profit	107,630	86,260
Prepayments and deposits	10,621	18,008
Customer liabilities for acceptances	1,116,318	1,129,203
Fair value of derivatives	120,205	82,037
Others	13,047	9,930
	1,367,821	**1,325,438**

15. Due to Banks and Term Borrowings

	2015 AED'000	2014 AED'000
By type		
Bilateral borrowings (note 15.1)	1,355,730	773,160
Sub-ordinated debt (note 15.2)	400,000	400,000
	1,755,730	**1,173,160**
Due to banks (note 15.3)	873,252	680,835
	2,628,982	**1,853,995**
By geographical area		
Within UAE	275,475	275,475
GCC Countries	488,812	183,650
Others	1,864,695	1,394,870
	2,628,982	**1,853,995**

As at 31 December 2015, due to banks include cash collateral of **AED 6.76 million** (31 December 2014: nil), in respect of positive fair value of derivatives, in accordance with the Credit Support Annex (CSA) agreements with the interbank counterparties.

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

Loan no.	Year obtained	Maturity	Interest rate	2015 AED '000	2014 AED '000
1	2015	November 2018	Libor + Margin	110,190	-
2	2015	March 2017	Libor + Margin	183,650	-
3	2015	March 2017	Libor + Margin	91,825	-
4	2015	May 2017	Libor + Margin	73,460	-
5	2015	February 2016	Libor + Margin	91,825	-
6	2015	March 2016	Libor + Margin	110,190	-
7	2015	March 2016	Libor + Margin	90,932	-
8	2015	October 2016	Libor + Margin	77,133	-
9	2015	October 2016	Libor + Margin	30,670	-
10	2015	November 2016	Libor + Margin	128,555	-
11	2014	March 2016	Libor + Margin	183,650	183,650
12	2014	March 2016	Libor + Margin	91,825	91,825
13	2014	May 2016	Libor + Margin	91,825	91,825
14	2014	March 2015	Libor + Margin	-	112,020
15	2014	October 2015	Libor + Margin	-	110,190
16	2013	December 2015	Libor + Margin	-	183,650
				1,355,730	**773,160**

15.2 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.

15.3 Due to banks include gold related borrowings amounting to **AED 547.3 million** (2014: AED 575.4 million) utilised to finance gold loans extended to customers on a matched basis.

16. Customer Deposits and Islamic Customer Deposits

	2015 AED'000	2014 AED'000
By type		
Demand and margin deposits	6,154,248	4,252,576
Saving deposits	297,657	224,780
Fixed term and notice deposits	15,160,629	13,454,375
	21,612,534	**17,931,731**
By geographical area		
Within UAE	20,230,091	17,318,518
Others	1,382,443	613,213
	21,612,534	**17,931,731**

16.1 Customer deposits and Islamic customer deposits include Qard Islamic current accounts, Murabaha and Wakala deposits amounting to **AED 1,116.85 million** (2014: AED 458.81 million) undertaken through a Shariah-compliant Islamic window, NBF Islamic.

17. Other Liabilities

	2015	2014
	AED'000	AED'000
Accrued interest / profit	86,182	44,286
Employee end of service and other long term benefits (Note 17.1)	39,750	34,590
Accrued expenses	98,261	77,013
Directors' attendance fees	2,750	2,750
Liabilities under acceptances	1,116,318	1,129,203
Fair value of derivatives	97,418	72,935
Others	71,344	75,384
	1,512,023	**1,436,161**

17.1 Employee end of service and other long term benefits

	2015	2014
	AED'000	AED'000
At 1 January	34,590	31,377
Charge for the year	13,749	12,151
Payment during the year	(8,589)	(8,938)
At 31 December	**39,750**	**34,590**

18. Shareholders' Equity

18.1 Share capital

	2015	2014
	AED'000	AED'000
Authorised, issued and fully paid		
1,182,500,000 shares of AED 1 each (2014: 1,100,000,000 shares of AED 1 each)	1,182,500	1,100,000

18.2 Proposed dividend

The Board of Directors has proposed a cash dividend of **7.5%** (2014: 7.5%) and bonus shares of **7.5%** (2014: 7.5%) of share capital for the year ended 31 December 2015.

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 239 of Federal Law No (2) of 2015, 10% of the Bank's 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 Bank's 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.

In March 2015, 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 during the initial period of five years, and will be reset every five years based on the then prevailing 5-year AED mid swap rate plus margin. 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 has also defined conditions for non-viability loss absorption and write-down in line with Basel III guidelines. The Bank may, at its sole discretion, elect not to make an interest / coupon payment. Issuance costs of AED 1.538 million were incurred.

20. Interest Income and Income from Islamic Financing and Investment Activities

	2015 AED'000	2014 AED'000
Loans and advances and Islamic financing receivables (note 20.1)	1,031,324	894,749
Due from banks including the UAE Central Bank CDs (note 20.1)	37,327	22,874
Investments and Islamic instruments (note 20.2)	16,758	11,066
	1,085,409	**928,689**

20.1 This includes income from Islamic financing activities amounting to **AED 19.0 million** for the year ended 31 December 2015.

20.2 This includes income from Islamic investment activities amounting to **AED 3.51 million** for the year ended 31 December 2015.

21. Interest Expense and Distribution to Islamic Depositors

	2015 AED'000	2014 AED'000
Due to banks including term borrowings	46,584	40,972
Customer deposits and Islamic customer deposits (note 21.1)	237,521	206,644
	284,105	**247,616**

21.1 Includes distribution to Islamic depositors amounting to **AED 13.25 million** for the year ended 31 December 2015.

22. Net Fees and Commission Income

	2015 AED'000	2014 AED'000
Fees and commission income		
Letters of credit	88,587	79,941
Letters of guarantee	47,472	45,931
Lending fees	124,734	97,388
Asset management and investment services	59	73
Commission on transfers	19,091	17,983
Others	32,763	20,225
Total fees and commission income	**312,706**	**261,541**
Fees and commission expense		
Brokerage expense	748	622
Card related charges	13,981	8,281
Other charges	3,837	570
Total fees and commission expense	**18,566**	**9,473**
Net fees and commission income	**294,140**	**252,068**

23. Income from Investments and Islamic Instruments

	2015 AED'000	2014 AED'000
Net fair value gains on the investment and Islamic instruments	2,707	5,148

24. Other Operating Income

	2015 AED'000	2014 AED'000
Rental income	756	1,108
Rebates	6,346	5,456
Other miscellaneous income	16,888	9,576
	23,990	**16,140**

25. Employee Benefits Expense

Employee benefits expense includes employee bonus of **AED 55.85 million** (2014: AED 51.1 million). The number of employees at 31 December 2015 was **728** including **587** employed by the Bank of which **249** were UAE nationals [2014: 712 including 576 employed by the Bank of which 242 were UAE nationals].

26. Social Contributions

The social contributions made during the year to various beneficiaries amount to **AED 0.9 million** (2014: AED 0.8 million).

27. Earnings Per Share

The calculation of earnings per share is based on net profit of **AED 558.8 million** (2014: AED 505.4 million), after deduction of **AED 54.0 million** (2014: AED 34.2 million) of issuance cost and coupon payment on Tier 1 capital notes, divided by the weighted average number of shares of **1,182.5 million** (2014: 1,182.5 million shares after adjusting for bonus shares) outstanding during the year.

28. 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 and balances included in the consolidated financial statements, which predominantly relate to directors and shareholders of the Group, are as follows:

	2015	2014
	AED'000	AED'000
Statement of financial position items		
Loans and advances and Islamic financing receivables	2,151,779	1,182,407
Customer deposits and Islamic customer deposits	4,620,544	4,638,926
Investments and Islamic instruments	159,537	73,417
Acceptances	33,228	58,463
Tier 1 capital notes	690,000	500,000
Tier 1 capital notes coupon paid	41,201	34,220
Contingent liabilities		
Letters of credit	121,357	72,229
Financial guarantees and other direct credit substitutes	91,695	41,160
Transaction related contingencies	110,452	94,362
Statement of income items		
Interest income and income from Islamic financing and investment activities	47,847	34,425
Interest expense and distribution to Islamic depositors	89,130	90,798
Other income	8,270	14,346
Key management compensation		
Salaries and other short-term benefits	20,980	19,820
Employee end of service benefits	630	533
Directors' attendance fees	2,750	2,750

No specific provisions for impairment have been recognised in respect of loans and advances and Islamic financing receivables given to related parties (2014: Nil).

The loans and advances and Islamic financing receivables given to related parties amounting to **AED 2,151.8 million** (2014: AED 1,182.4 million) have been secured against collateral amounting to **AED 1,446.1 million** (2014: AED 1,074.0 million).

In accordance with the requirements of notice no. 226 / 2015 dated 26 August 2015 and issued by the UAE Central Bank, the Group has complied with article (91) of Union Law No (10) of 1980.

29. 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:

	2015	2014
	AED'000	AED'000
Cash on hand	319,647	247,308
Balances with the UAE Central Bank (note 28.1)	3,172,708	3,351,558
Due from banks with less than three months maturity	1,610,669	802,373
	5,103,024	**4,401,239**
Due to banks with less than three months maturity	(661,170)	(651,638)
	4,441,854	**3,749,601**

29.1 Balances with the UAE Central Bank include certificates of deposit. In accordance with UAE Central Bank regulations on issuance of certificates of deposit, the Bank can enter into repurchase agreements in order to obtain short term liquidity.

30. 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 utilisation of resources in productive assets and management of exchange and interest positions within the limits and guidelines set by management and approved by the Board.

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

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

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

2015 (AED'000)	Corporate and Institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	**Consolidated**
Segment revenue	650,409	265,187	89,260	208,241	**1,213,097**
Segment operating cost	(222,951)	(125,195)	(70,279)	(27,820)	**(446,245)**
Segment operating profit	**427,458**	**139,992**	**18,981**	**180,421**	**766,852**
Net impairment losses	(134,524)	(55,525)	(18,043)	-	**(208,092)**
Net profit	**292,934**	**84,467**	**938**	**180,421**	**558,760**
Segment assets	17,173,275	2,939,673	1,780,941	8,139,267	**30,033,156**
Segment liabilities	19,226,048	2,669,154	1,803,881	2,054,456	**25,753,539**
Capital expenditure	-	-	-	38,096	**38,096**

2014 (AED'000)	Corporate and Institutional segments	Business banking segment	Retail banking	Treasury, ALM and others	**Consolidated**
Segment revenue	535,997	247,985	75,834	165,392	**1,025,208**
Segment operating cost	(187,911)	(107,653)	(68,216)	(23,636)	**(387,416)**
Segment operating profit	**348,086**	**140,332**	**7,618**	**141,756**	**637,792**
Net impairment losses	(80,121)	(39,063)	(13,170)	-	**(132,354)**
Net profit / (loss)	**267,965**	**101,269**	**(5,552)**	**141,756**	**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**

31. Comparative Figures

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