

National Bank of Fujairah PSC
Condensed consolidated interim financial
statements – (Un-audited)
For the three month period ended 31
March 2011

Condensed consolidated interim financial statements – (Un-audited)
For the three month period ended 31 March 2011

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

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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of National Bank of Fujairah ("the Bank") and its subsidiary (together referred to as "the Group") as at 31 March 2011 and the condensed consolidated interim statement of comprehensive income (comprising a condensed consolidated interim statement of comprehensive income and a separate condensed consolidated interim income statement), condensed consolidated interim statement of cash flows and condensed consolidated interim statement of changes in equity for the three month period then ended (the condensed consolidated interim financial information). Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with IAS 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information as at and for the period ended 31 March 2011 is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting'.

KPMG
Vijendranath Malhotra
Registration No. 48B

Dated: 25 April 2011


National Bank of Fujairah PSC

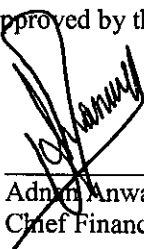
Condensed consolidated interim statement of financial position – (Un-audited)

As at 31 March 2011

| | Note | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|---|------|------------------------|-----------------------------------|
| Assets | | | |
| Cash and balances with UAE Central Bank | | 2,458,442 | 2,202,366 |
| Due from banks | 6 | 303,952 | 192,976 |
| Loans and advances | 7 | 8,995,596 | 8,716,694 |
| Investments | 9 | 724,006 | 678,362 |
| Property and equipment | | 85,625 | 86,229 |
| Intangible assets | | 7,658 | 9,010 |
| Capital work-in-progress | | 1,657 | 2,009 |
| Other assets | | 1,508,100 | 1,028,967 |
| Total assets | | 14,085,036 | 12,916,613 |
| Liabilities | | | |
| Due to banks | 10 | 588,798 | 446,457 |
| Term borrowings | 10 | 912,484 | 908,105 |
| Customer deposits | 11 | 9,115,935 | 8,657,591 |
| Other liabilities | | 1,634,618 | 1,056,921 |
| Total liabilities | | 12,251,835 | 11,069,074 |
| Shareholders' equity | | | |
| Share capital | 12 | 1,100,000 | 1,100,000 |
| Statutory reserve | | 255,447 | 255,447 |
| Special reserve | | 150,447 | 150,447 |
| Available-for-sale revaluation reserve | | (6,140) | (9,364) |
| Proposed dividends | | - | 68,200 |
| Retained earnings | | 333,447 | 282,809 |
| Total shareholders' equity | | 1,833,201 | 1,847,539 |
| Total liabilities and shareholders' equity | | 14,085,036 | 12,916,613 |

These condensed consolidated interim financial statements were approved by the Board of Directors on 25 April 2011 and are signed on their behalf by:


 Vince Cook
 Chief Executive Officer


 Adnan Anwar
 Chief Financial Officer

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

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

National Bank of Fujairah PSC

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

For the three month period ended 31 March 2011

| | <i>Note</i> | Three month period ended 31 Mar 2011 AED'000 | Three month period ended 31 Mar 2010 AED'000 |
|---|-------------|---|---|
| Interest income | | 160,442 | 147,802 |
| Interest expense | | (61,927) | (60,371) |
| Net interest income | | 98,515 | 87,431 |
| Net fees and commission income | | 37,554 | 35,023 |
| Foreign exchange income | | 10,048 | 8,926 |
| Income from derivatives | | 9 | 401 |
| Other operating income | | 2,349 | 2,615 |
| Operating income | | 148,475 | 134,396 |
| Net impairment losses | 8 | (45,053) | (47,556) |
| Income from investments | | 4,145 | 1,725 |
| Net operating income | | 107,567 | 88,565 |
| Operating expenses | | | |
| Employee benefits expense | | (41,035) | (35,636) |
| Depreciation and amortization | | (4,029) | (4,172) |
| Other operating expenses | | (11,865) | (10,627) |
| Total operating expenses | | (56,929) | (50,435) |
| Profit for the period | | 50,638 | 38,130 |
| Earnings per share (basic and diluted) | 13 | AED 0.046 | AED 0.035 |

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

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

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

National Bank of Fujairah PSC

Condensed consolidated interim statement of comprehensive income – (Un-audited) For the three month period ended 31 March 2011

| | Three month period ended 31 Mar 2011 AED'000 | Three month period ended 31 Mar 2010 AED'000 |
|--|---|---|
| Profit for the period | 50,638 | 38,130 |
| Other comprehensive income: | | |
| <i>Changes in available-for-sale investments:</i> | | |
| Amortisation of re-classified investments | 1,208 | 1,207 |
| Realised gains on sale of available-for-sale investments | 1,339 | 228 |
| Revaluation of available-for-sale investments | 677 | 1,987 |
| Net change in available-for-sale-investments | 3,224 | 3,422 |
| Total comprehensive income for the period | 53,862 | 41,552 |

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

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

National Bank of Fujairah PSC

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

For the three month period ended 31 March 2011

| | | Three month period ended 31 Mar 2011 AED'000 | Three month period ended 31 Mar 2010 AED'000 |
|--|-------------|---|---|
| Operating activities | | | |
| | <i>Note</i> | | |
| Profit for the period | | 50,638 | 38,130 |
| Adjustments for : | | | |
| Depreciation and amortised cost | | 4,029 | 4,172 |
| Net impairment losses | | 45,053 | 47,556 |
| Realised gains on investments | | (1,339) | (813) |
| Unrealised gains on investments | | (2,806) | (912) |
| Operating profit before working capital changes | | 95,575 | 88,133 |
| Change in loans and advances | | (323,955) | (322,612) |
| Change in other assets | | (479,133) | (28,491) |
| Change in due to banks | | (11,464) | (3,614) |
| Change in customer deposits | | 458,344 | (258,930) |
| Change in other liabilities | | 509,497 | 26,910 |
| Net cash generated from / (used in) operating activities | | 248,864 | (498,604) |
| Investing activities | | | |
| Purchase of property and equipment and capital work-in-progress | | (1,721) | (798) |
| Purchase of investments | | (179,033) | (144,202) |
| Proceeds from sale of investments | | 140,758 | 126,744 |
| Net cash used in investing activities | | (39,996) | (18,256) |
| Financing activities | | | |
| Change in term borrowings | | 4,379 | (4,324) |
| Net cash generated from / (used in) financing activities | | 4,379 | (4,324) |
| Net change in cash and cash equivalents | | 213,247 | (521,184) |
| Cash and cash equivalents at beginning of the period | | 2,006,820 | 2,287,075 |
| Cash and cash equivalents at end of the period | 16 | 2,220,067 | 1,765,891 |

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

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

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Condensed consolidated interim statement of changes in equity – (Un-audited) For the three month period ended 31 March 2011

| | Share capital AED'000 | Statutory reserve AED'000 | Special Reserve AED'000 | Retained earnings AED'000 | Available- for-sale revaluation reserve AED'000 | Proposed dividends AED'000 | Total AED'000 |
|--|-----------------------------|---------------------------------|-------------------------------|---------------------------------|---|----------------------------------|------------------|
| At 1 January 2010 | 1,100,000 | 238,360 | 133,360 | 214,312 | (17,508) | - | 1,668,524 |
| Total comprehensive income for the period | - | - | - | 38,130 | 3,422 | - | 41,552 |
| At 31 March 2010 | 1,100,000 | 238,360 | 133,360 | 252,442 | (14,086) | - | 1,710,076 |
| At 1 January 2011 | 1,100,000 | 255,447 | 150,447 | 282,809 | (9,364) | 68,200 | 1,847,539 |
| Total comprehensive income for the period | - | - | - | 50,638 | 3,224 | - | 53,862 |
| 2010 cash dividends | - | - | - | - | - | (68,200) | (68,200) |
| At 31 March 2011 | 1,100,000 | 255,447 | 150,447 | 333,447 | (6,140) | - | 1,833,201 |

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

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

National Bank of Fujairah PSC

Notes to the condensed consolidated interim financial statements – (Un-audited) For the three month period ended 31 March 2011

1. Legal status and activities

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

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

The Bank has a fully owned subsidiary company, NBF Financial Services FZC which was established in December 2004 with limited liability status in the Fujairah Free Trade Zone to provide support services to the Bank.

The condensed consolidated interim financial statements for the three month period ended 31 March 2011 comprise the Bank and its subsidiary (together referred to as "the Group").

The registered address of the Group is Hamad Bin Abdullah Street, P O Box 887, Fujairah, United Arab Emirates.

2. Disclosure policy

The Group has established a disclosure policy to ensure compliance with all applicable laws and regulations concerning disclosure of material non public information, including International Financial Reporting Standards, the rules of the Central Bank and their Basel II Pillar 3 guidelines, and the listing requirements of Securities and Commodities Authority (SCA) and ADX.

The following are the key features of the Group's disclosure policy concerning disclosure of financial information:

a) Materiality thresholds

Information is considered material if its omission or misstatement could change or influence the assessment or decision of a user relying on that information for the purpose of making economic decisions and / or any material information that might affect the share price. The Group, in order to ensure adequate disclosure lays down a materiality threshold, so that no material information is omitted or misstated; at the same time it does not jeopardize its competitive position.

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Notes (*continued*)

2. Disclosure policy (*continued*)

b) Frequency and medium of disclosure

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

- Sending reviewed quarterly and annual audited financial statements along with Management Discussion Analysis or Directors' report and any other price sensitive information to ADX and SCA;
- Hosting quarterly and annual financial statements on the Group's website;
- Publication of annual audited financial statements in both Arabic and English newspapers after the approval in the Annual General Meeting (AGM);
- Management analysis in Arabic and English newspapers in a manner that ensures wide dissemination; and
- Publication of annual report.

3. Basis of preparation

Statement of compliance

The condensed consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"), IAS 34: *Interim Financial Reporting*. These financial statements do not include all the information required for full annual audited consolidated financial statements and should be read in conjunction with the audited consolidated financial statements of the Group as at and for the year ended 31 December 2010.

4. Significant accounting policies

The accounting policies and methods of computation applied by the Group in these condensed consolidated interim financial statements are the same as those applied by the Group in its audited consolidated financial statements as at and for the year ended 31 December 2010. However, the Group has adopted IAS 24 'Related Party Disclosures' (Revised) which became applicable for annual periods beginning on or after 1 January 2011, in the preparation of these condensed consolidated interim financial statements. IAS 24 amends the definition of a related party and modifies certain related party disclosure requirements for government related entities. The revised requirements under IAS 24 affect the presentation and disclosure of these condensed consolidated interim financial statements and do not have any effect on the reported amounts in the condensed consolidated interim statement of financial position and condensed consolidated interim statement of comprehensive income.

Key accounting estimates and judgments

The preparation of the condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may therefore differ resulting in future changes in these estimates. In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation and uncertainty were the same as those that applied to the audited consolidated financial statements as at and for the year ended 31 December 2010.

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Notes (continued)

5. Financial risk management

The Group's financial risk management objectives, policies and procedures are consistent with those disclosed in the audited consolidated financial statements as at and for the year ended 31 December 2010.

| 6. Due from banks | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|----------------------|------------------------|-----------------------------------|
| By geographical area | | |
| Within UAE | 258,491 | 56,988 |
| GCC countries | 2,966 | 61,903 |
| Others | 42,495 | 74,085 |
| | <u>303,952</u> | <u>192,976</u> |

6.1 The currency wise analysis is set out below:

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|--------|------------------------|-----------------------------------|
| AED | 258,491 | 32,637 |
| USD | 6,082 | 29,867 |
| EURO | 4,370 | 93,790 |
| GBP | 2,220 | 4,822 |
| Others | 32,789 | 31,860 |
| | <u>303,952</u> | <u>192,976</u> |

7. Loans and advances

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|--|------------------------|-----------------------------------|
| 7.1 Loans and advances by type: | | |
| Overdrafts | 1,197,460 | 1,281,624 |
| Term loans | 5,785,804 | 5,635,922 |
| Loans against trust receipts | 1,159,131 | 1,130,484 |
| Bills discounted | 992,927 | 805,877 |
| Bills drawn under letters of credit | 563,392 | 520,852 |
| | <u>9,698,714</u> | <u>9,374,759</u> |
| Allowance for impairment losses (note 8) | <u>(703,118)</u> | <u>(658,065)</u> |
| Net loans and advances | <u>8,995,596</u> | <u>8,716,694</u> |

National Bank of Fujairah PSC

Notes (continued)

7. Loans and advances (continued)

7.2 Contingent liabilities and commitments

Contingent liabilities represent credit related commitments under letters of credit and guarantees which are designed to meet the requirements of the Group's customers towards third parties. Commitments represent contractually binding commitments to extend credit and other capital expenditure commitments of the Group which are undrawn at the date of statement of financial position.

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|--|------------------------|-----------------------------------|
| Contingent liabilities: | | |
| - Letters of credit covering movement of goods | 1,147,835 | 1,181,675 |
| - Financial guarantees and other direct credit substitutes | 361,024 | 331,695 |
| - Bid bonds, performance bonds and other transaction related contingencies | 3,392,798 | 3,505,655 |
| | <u>4,901,657</u> | <u>5,019,025</u> |

Commitments and others:

| | | |
|--|-----------|-----------|
| - Undrawn commitments - credit related | 8,224,938 | 7,633,211 |
| - Others | 7,612 | 9,928 |

These contingent liabilities and commitments have off balance sheet credit risk and related fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expired. Many of the contingent liabilities and commitments will expire without being advanced in whole or in part. Therefore, the amounts do not represent expected future cash flows.

8. Allowance for impairment losses on loans and advances

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|---|------------------------|-----------------------------------|
| Movement in allowances for impairment losses | | |
| Balance at 1 January | 658,065 | 479,222 |
| Provided during the period / year | 50,313 | 238,955 |
| Released during the period / year | (5,260) | (33,910) |
| | <u>45,053</u> | <u>205,045</u> |
| Net allowance for impairment losses | - | (26,202) |
| Written-off during the period / year | | |
| | <u>703,118</u> | <u>658,065</u> |

National Bank of Fujairah PSC

Notes (continued)

9. Investments

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|---|------------------------|-----------------------------------|
| Investments at fair value through profit or loss (FVPL) (note 9.1) | 44,311 | 41,621 |
| Available for sale (AFS) | | |
| Debt securities (note 9.2) | 336,331 | 347,573 |
| Other investments | 656 | 690 |
| | <u>336,987</u> | <u>348,263</u> |
| Held to maturity (HTM) | | |
| Debt securities (note 9.2) | 342,708 | 288,478 |
| | <u>724,006</u> | <u>678,362</u> |

- 9.1 This includes various international funds and funds with no fixed maturities and coupon rates. The fair values of these investments are based on the net asset values provided by the fund managers. These also comprise investments in private equity and funds invested in an insurance bond previously maintained in a discretionary trust.
- 9.2 **Debt securities** represent the Group's investments in bonds and notes. These include floating rate securities amounting to **AED 516 million** (31 Dec 2010: AED 585 million). These securities are quoted on internationally recognised platforms of Reuter and Bloomberg and are liquid in normal market conditions.
- 9.3 The counterparty dispersion of the investment portfolio is set out below:

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|----------------------------------|------------------------|-----------------------------------|
| Government | 87,342 | 87,010 |
| Banks and financial institutions | 466,117 | 433,102 |
| Others | 170,547 | 158,250 |
| | <u>724,006</u> | <u>678,362</u> |

National Bank of Fujairah PSC

Notes (continued)

9. Investments (continued)

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

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|---------------|------------------------|-----------------------------------|
| Within UAE | 502,210 | 528,929 |
| GCC Countries | 58,020 | 57,360 |
| Others | 163,776 | 92,073 |
| | <u>724,006</u> | <u>678,362</u> |

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

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|------|------------------------|-----------------------------------|
| AED | 448,258 | 485,079 |
| USD | 156,285 | 142,833 |
| EURO | 101,879 | 33,622 |
| GBP | 17,584 | 16,828 |
| | <u>724,006</u> | <u>678,362</u> |

10. Due to banks and term borrowings

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|--|------------------------|-----------------------------------|
| By type: | | |
| Syndicated and bilateral borrowings from banks (note 10.1) | 912,484 | 908,105 |
| Short-term borrowings | 588,798 | 446,457 |
| | <u>1,501,282</u> | <u>1,354,562</u> |
| By geographical area: | | |
| Within UAE | 237,396 | 98,258 |
| GCC Countries | 2 | 2 |
| Others | 1,263,884 | 1,256,302 |
| | <u>1,501,282</u> | <u>1,354,562</u> |

10.1 On 31 July 2008, the Group arranged a term loan facility of AED 765.6 million (comprising US\$ 190 million and Euro 13 million) through a syndicate of banks. The facility carries a floating rate which is the aggregate of Margin and LIBOR and is repayable in full on 25 June 2011.

National Bank of Fujairah PSC

Notes (continued)

10. Due to banks and term borrowings (continued)

Under the terms of the agreement, the Group is required to maintain a minimum capital adequacy ratio calculated on the basis of Basel II Accord as applicable in the UAE and to maintain a minimum tangible net worth of US\$ 350 million. During 2010, the Group arranged term loan facilities through banks amounting to AED 146.9 million. The facilities carry floating rate which is the aggregate of Margin and LIBOR. As per the terms of the agreements, the tenure of the facilities extends to 2 years after the disbursement date.

11. Customer deposits

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|---|------------------------|-----------------------------------|
| <i>By type</i> | | |
| Demand and margin deposits | 1,953,422 | 1,680,503 |
| Saving deposits | 32,826 | 38,103 |
| Fixed term and notice deposits (note 11.1, 11.2 & 11.3) | 7,129,687 | 6,938,985 |
| | <u>9,115,935</u> | <u>8,657,591</u> |
| <i>By geographical area</i> | | |
| Within UAE | 8,700,752 | 8,144,332 |
| Others | 415,183 | 513,259 |
| | <u>9,115,935</u> | <u>8,657,591</u> |

- 11.1 Fixed term and notice deposits include structured deposit notes which are fair valued through statement of income amounting to AED 69 million (31 December 2010: AED 73 million), being the fair value as at 31 March 2011.
- 11.2 The Group received deposits aggregating to AED 643 million in October and November 2008 from the Ministry of Finance of the UAE. On 31 December 2009, the Group entered into an agreement with UAE Ministry of Finance, through which these deposits are now subordinate to equity subject to certain conditions as set out in the agreement and included in Tier 2 capital. As per the terms of the conversion and subordination agreement and subject to certain conditions to be adhered to, the tenure of the loan extends to 7 years from the date of conversion and is payable in full on maturity with an early repayment option. The loan carries stepped up pricing over the tenure, with interest payable quarterly.
- 11.3 On 19 August 2008, the Group arranged a subordinated term loan facility with a finance company amounting to AED 400 million. The facility carries interest rate which is the aggregate of Margin and EIBOR, payable quarterly commencing from 19 November 2008. As per the terms of the facility, the full principal amount of the facility is to be repaid on 19 August 2018. The Central Bank has approved the facility to be considered as Tier 2 capital for regulatory purposes.

12. Shareholders' equity

12.1 Share capital

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

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Notes (continued)

13. Earnings per share

The calculation of earnings per share for the three month period ended 31 March 2011 is based on earnings of AED 50,638 thousand (31 March 2010: AED 38,130 thousand) divided by the weighted average number of shares of 1,100,000 thousand (31 March 2010: 1,100,000 thousand shares) outstanding during the period.

14. Related parties

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the case of the Group, related parties, as defined in the International Accounting Standard No. 24, include major shareholders of the Group, directors and officers of the Group and companies of which they are principal owners and key management personnel. Banking transactions are entered into with related parties on agreed terms and conditions approved by the Board of Directors. The significant transactions included in the financial statements are as follows:

| | 31 March 2011 AED'000 | Average balances during 2011 AED'000 | 31 December 2010 AED'000 Audited | Average balances during 2010 AED'000 Audited |
|--|-----------------------------|--|---|---|
| Statement of financial position items | | | | |
| Loans and advances | 485,550 | 494,116 | 463,903 | 385,759 |
| Customer deposits | 2,097,790 | 2,009,423 | 1,923,423 | 1,890,388 |
| Letters of credit | 79,341 | 78,958 | 76,037 | 139,085 |
| Financial guarantees and other direct credit substitutes | 16,301 | 17,401 | 18,601 | 19,349 |
| Transaction related contingencies | 133,943 | 133,007 | 132,093 | 120,072 |
| | 31 March 2011 AED'000 | | 31 March 2010 AED'000 | |
| Statement of income items | | | | |
| Interest income | 7,005 | | 6,852 | |
| Interest expense | 17,361 | | 15,847 | |
| Other income | 1,521 | | 2,767 | |
| Key management compensation | | | | |
| Salaries and other short-term benefits | 4,103 | | 3,150 | |
| Employee terminal and other long-term benefits | 79 | | 68 | |

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

The loans given to related parties amounting to AED 485.6 million (31 December 2010: AED 463.903 million) have been secured against collateral amounting to AED 72.8 million (31 December 2010: AED 76.6 million).

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Notes (continued)

15. Capital adequacy ratio

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

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

- Tier 1 capital, which includes ordinary share capital and retained earnings (excluding current year's profit); and
- Tier 2 capital, which includes fair value reserves relating to unrealized gains / losses on investments classified as available-for-sale, collective impairment provision and subordinated facilities. The following limits have been applied for Tier 2 capital:
 - Total tier 2 capital shall not exceed 67% of tier 1 capital;
 - Subordinated liabilities shall not exceed 50% of total tier 1 capital; and
 - Collective impairment provision shall not exceed 1.25% of total risk weighted assets.

| | 31 Mar 2011 AED'000 | 31 Dec 2010 AED'000 Audited |
|--|-------------------------|-----------------------------------|
| Tier 1 Capital | | |
| Share capital | 1,100,000 | 1,100,000 |
| Statutory reserve | 255,447 | 238,360 |
| Special reserve | 150,447 | 133,360 |
| Retained earnings | 282,809 | 214,312 |
| Total Tier 1 | 1,788,703 | 1,686,032 |
| Tier 2 Capital | | |
| Available-for-sale revaluation reserve | (6,140) | (9,364) |
| Subordinated facilities (note 11.2 & 11.3) | 894,352 | 843,016 |
| Collective impairment provision | 166,682 | 137,482 |
| Total Tier 2 | 1,054,894 | 971,134 |
| Deductions from Tier 1 and Tier 2 Capital | | |
| Investments in unconsolidated subsidiaries | - | - |
| Total capital base (a) | <u>2,843,597</u> | <u>2,657,166</u> |

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Notes (continued)

15. Capital adequacy ratio (continued)

Risk weighted assets

| | 31 Mar 2011 Risk weighted equivalent AED'000 | 31 Dec 2010 Risk weighted equivalent AED' 000 Audited |
|---|--|--|
| Credit risk | 12,692,566 | 11,768,098 |
| Market risk | 1,379 | 5,166 |
| Operational risk | 688,204 | 646,334 |
| Total risk weighted assets (b) | 13,382,149 | 12,419,598 |
| Capital adequacy ratio (a) / (b) - % | 21.25 | 21.39 |

16. Cash and cash equivalents

For the purpose of the cash flow statement, cash and cash equivalents comprise the following balances from the date of acquisition:

| | 31 Mar 2011 AED'000 | 31 Mar 2010 AED'000 |
|---|------------------------|------------------------|
| Cash on hand | 71,663 | 55,917 |
| Balances with Central Bank of UAE | 2,386,779 | 2,102,901 |
| Due from banks with less than three months maturity | 303,952 | 124,888 |
| | <hr/> | <hr/> |
| | 2,762,394 | 2,283,706 |
| Due to banks with less than three months maturity | (542,327) | (517,815) |
| | <hr/> | <hr/> |
| | <u>2,220,067</u> | <u>1,765,891</u> |

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Notes (continued)

17. Segmental reporting

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

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

Business segments

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

Wholesale banking

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

Consumer banking

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

Treasury, Asset and Liability Management (ALM) and others

The segment undertakes the Group's asset and liability management centrally and is responsible for optimum utilization of resources in productive assets and management of exchange and interest positions within the limits and guidelines set by management and approved by the Board. Treasury also offers various foreign exchange and derivative products to customers and is entrusted with the responsibility of managing the Group's investment portfolio together with Asset and Liability Committee. The Group's capital and investment in subsidiary is recognised under this segment.

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

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Notes (continued)

17. Segmental reporting (continued)

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

| Three month period ended 31 March 2011 | Wholesale banking | Consumer banking | Treasury, ALM & others | Consolidated |
|---|----------------------|---------------------|---------------------------|--------------|
| | AED'000 | | | |
| Segment revenue | 129,270 | 16,226 | 7,124 | 152,620 |
| Segment operating cost | (34,778) | (19,561) | (2,590) | (56,929) |
| Impairment losses | (45,891) | 838 | - | (45,053) |
| Profit / (loss) | 48,601 | (2,497) | 4,534 | 50,638 |
| 31 March 2011 | | | | |
| Segment assets | 9,896,597 | 587,711 | 3,600,728 | 14,085,036 |
| Segment liabilities | 9,231,634 | 554,392 | 2,465,809 | 12,251,835 |
| Capital expenditure | | | 2,073 | 2,073 |
| Three month period ended 31 March 2010 | Wholesale banking | Consumer banking | Treasury, ALM & others | Consolidated |
| | AED'000 | | | |
| Segment revenue | 117,560 | 14,193 | 4,368 | 136,121 |
| Segment operating cost | (32,502) | (16,075) | (1,858) | (50,435) |
| Net impairment losses | (42,923) | (4,633) | - | (47,556) |
| Profit / (loss) | 42,135 | (6,515) | 2,510 | 38,130 |
| 31 December 2010 | | | | |
| Segment assets | 9,147,411 | 588,236 | 3,180,966 | 12,916,613 |
| Segment liabilities | 8,474,948 | 391,931 | 2,202,195 | 11,069,074 |
| Capital expenditure | | | 6,730 | 6,730 |

18. Comparative figures

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