

The National Bank of Ras Al-Khaimah (P.S.C.)

**Condensed interim financial information
for the six months ended 30 June 2012**

The National Bank of Ras Al-Khaimah (P.S.C.)

Condensed interim financial information for the six months ended 30 June 2012

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**Review report to the Directors of
The National Bank of Ras Al-Khaimah (P.S.C.)**

Introduction

We have reviewed the accompanying condensed interim statement of financial position of The National Bank of Ras Al-Khaimah (P.S.C.) ("the Bank") as of 30 June 2012 and the related condensed interim statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting. Our responsibility is to express a conclusion on this condensed 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 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 interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 – Interim Financial Reporting.

PricewaterhouseCoopers
21 July 2012

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

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The National Bank of Ras Al-Khaimah (P.S.C.)

Statement of financial position

	Notes	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
ASSETS			
Cash and balances with the Central Bank of UAE	3	2,543,329	1,844,193
Due from other banks	4	1,158,137	1,972,251
Loans and advances (net)	5	19,550,635	18,368,470
Investment securities	6	1,586,503	1,163,813
Property and equipment (net)	7	1,014,664	952,167
Other assets	8	231,449	201,643
Total assets		26,084,717	24,502,537
LIABILITIES			
Due to other banks		1,515	334,471
Due to customers	9	20,277,312	18,290,165
Subordinated debt	10	384,467	684,467
Other liabilities	11	402,494	443,495
Provision for employees' end of service benefits		58,704	53,067
Total liabilities		21,124,492	19,805,665
Equity			
Share capital	12	1,523,859	1,385,327
Share premium		110,350	110,350
Retained earnings		1,031,978	1,157,426
Other reserves	13	2,294,038	2,043,769
Total equity		4,960,225	4,696,872
Total liabilities and equity		26,084,717	24,502,537

This condensed interim financial information was approved by the Executive Committee on 21 July 2012 and was signed on its behalf by:



Graham Honeybill
Chief Executive Officer

The notes on pages 7 to 27 form an integral part of the condensed interim financial information.

The National Bank of Ras Al-Khaimah (P.S.C.)

Statement of income (reviewed)

	Notes	<u>Three months ended 30</u>		<u>Six months ended 30</u>	
		<u>June</u>		<u>June</u>	
		2012	2011	2012	2011
		AED'000	AED'000	AED'000	AED'000
Interest income	16	638,634	583,827	1,263,479	1,142,765
Interest expense	16	(88,697)	(95,728)	(175,333)	(209,468)
Net interest income		<u>549,937</u>	<u>488,099</u>	<u>1,088,146</u>	<u>933,297</u>
Fee and commission income	17	124,997	121,249	240,913	307,855
Foreign exchange income		17,198	14,735	32,185	28,051
Investment income		18,903	11,934	35,188	23,031
Other operating income		4,650	5,768	11,772	9,056
Operating income		<u>715,685</u>	<u>641,785</u>	<u>1,408,204</u>	<u>1,301,290</u>
Operating expenses		(318,135)	(276,080)	(624,875)	(563,809)
Provision for impairment of loans and advances net of write back	5(d)	(54,153)	(69,700)	(114,647)	(148,332)
Profit for the period		<u><u>343,397</u></u>	<u><u>296,005</u></u>	<u><u>668,682</u></u>	<u><u>589,149</u></u>
Basic earnings per share	18	<u><u>AED 0.23</u></u>	<u><u>AED 0.19</u></u>	<u><u>AED 0.44</u></u>	<u><u>AED 0.39</u></u>

The notes on pages 7 to 27 form an integral part of the condensed interim financial information.

The National Bank of Ras Al-Khaimah (P.S.C.)

Statement of comprehensive income (reviewed)

	Note	<u>Three months ended 30</u>		<u>Six months ended 30</u>	
		<u>June</u>		<u>June</u>	
		2012	2011	2012	2011
		AED'000	AED'000	AED'000	AED'000
Profit for the period		343,397	296,005	668,682	589,149
Other comprehensive income:					
Net changes in fair value of available-for-sale investment securities	6	3,613	3,289	8,754	8,835
Release of fair value loss to statement of income on maturity of available-for-sale investment securities		1,515	-	1,515	-
Other comprehensive income for the period		5,128	3,289	10,269	8,835
Total comprehensive income for the period		348,525	299,294	678,951	597,984

The notes on pages 7 to 27 form an integral part of the condensed interim financial information.

The National Bank of Ras Al-Khaimah (P.S.C.)

Statement of changes in equity (reviewed)

	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Total AED'000
At 1 January 2011	1,154,439	110,350	782,194	1,669,375	3,716,358
Issue of bonus shares (Note 12)	230,888	-	(230,888)	-	-
Dividend (Note 12)	-	-	(230,888)	-	(230,888)
Total comprehensive income for the period	-	-	589,149	8,835	597,984
At 30 June 2011	<u>1,385,327</u>	<u>110,350</u>	<u>909,567</u>	<u>1,678,210</u>	<u>4,083,454</u>
At 1 January 2012	1,385,327	110,350	1,157,426	2,043,769	4,696,872
Transfer to Reserve - Regulatory Credit Risk (Note 13)	-	-	(240,000)	240,000	-
Issue of bonus shares(Note 12)	138,532	-	(138,532)	-	-
Dividend (Note 12)	-	-	(415,598)	-	(415,598)
Total comprehensive income for the period	-	-	668,682	10,269	678,951
At 30 June 2012	<u>1,523,859</u>	<u>110,350</u>	<u>1,031,978</u>	<u>2,294,038</u>	<u>4,960,225</u>

The notes on pages 7 to 27 form an integral part of the condensed interim financial information.

The National Bank of Ras Al-Khaimah (P.S.C.)

Statement of cash flows (reviewed)

	Notes	Six months ended 30 June	
		2012 AED'000	2011 AED'000
Operating activities			
Profit for the period		668,682	589,149
Adjustments:			
Net charge for provision for impairment of loans and advances net of write back	5(d)	114,647	148,332
Depreciation	7	46,252	34,977
Provision for employees' end of service benefits		9,264	6,073
Gain on disposal of property and equipment		(323)	(469)
Amortisation of discount relating to securities held to maturity	6	(1,833)	(652)
Release of fair value loss to statement of income on maturity of available-for-sale investment securities		1,515	-
Operating cash flows before payment of employees end of service benefits and changes in assets and liabilities:		838,204	777,410
Payment of employees' end of service benefits		(3,627)	(2,674)
Changes in assets and liabilities:			
Deposits with the Central Bank of UAE	3	(131,066)	(251,843)
Due from other banks with original maturities of three months or over	20	-	(89,513)
Loans and advances net of provisions for impairment		(1,296,812)	(1,262,771)
Other assets	8	(29,806)	(32,603)
Due to other banks (net of amount due to Central Bank of UAE)		(235,557)	290,118
Due to customers	9	1,987,147	675,096
Other liabilities	11	(41,001)	(86,684)
Net cash generated from operating activities		1,087,482	16,536
Investing activities			
Purchase of investment securities	6	(641,073)	(349,070)
Purchase of property and equipment	7	(109,153)	(123,548)
Proceeds from maturity / disposal of investments	6	228,970	55,095
Proceeds from disposal of property and equipment		727	727
Net cash used in investing activities		(520,529)	(416,796)
Financing activities			
Dividends paid		(415,598)	(230,888)
Subordinated debt repayment	10	(300,000)	-
Net cash used in financing activities		(715,598)	(230,888)
Net decrease in cash and cash equivalents		(148,645)	(631,148)
Cash and cash equivalents, beginning of the period		2,233,818	1,842,574
Cash and cash equivalents, end of the period	20	2,085,173	1,211,426

The notes on pages 7 to 27 form an integral part of the condensed interim financial information.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012

1 Incorporation and principal activities

The National Bank of Ras Al-Khaimah (P.S.C.) ("the Bank") is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates ("UAE"). The head office of the Bank is located at the National Bank of Ras Al-Khaimah building, Emirates road, Ras Al-Khaimah.

The Bank is engaged in providing retail and commercial banking services through a network of thirty one branches in the UAE. The Bank has incorporated two subsidiaries during the period ended 30 June 2012. Details of these subsidiaries are disclosed in note 24.

2 Significant accounting policies

2.1 Basis of preparation

The condensed interim financial information is prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting". The condensed interim financial information is prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets and derivative financial instruments.

The accounting policies applied in the preparation of the condensed interim financial information are consistent with those applied in the annual financial statements for the year ended 31 December 2011. The condensed interim financial information should therefore be read in conjunction with the annual financial statements for year ended 31 December 2011.

Costs that occur unevenly during the financial year are anticipated or deferred in the condensed interim financial information only if it would also be appropriate to anticipate or defer such costs at the end of the financial year.

Standards, amendments to published standards or IFRIC interpretations that are effective for the Bank's accounting period beginning on 1 January 2012

There are no new standards, amendments to published standards or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the financial statements of the Bank.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Standards and amendment to a published standard that have been issued but are not effective for the Bank's accounting period beginning 1 January 2012

The following applicable new standards and amendment to a published standard have been issued but are not effective for the Bank's accounting period beginning 1 January 2012 and have not been early adopted by the Bank:

- IFRS 9, 'Financial instruments' (effective 1 January 2015), addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of income, unless this creates an accounting mismatch.
- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income (effective 1 July 2012). These amendments require entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- IFRS 10, 'Consolidated financial statements' (effective 1 January 2013). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess.
- IAS 27, (revised 2011) 'Separate financial statements' (effective 1 January 2013). This standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10.
- IFRS 13, 'Fair value measurement' (effective 1 January 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP.

The Bank has assessed the impact of the above new standards and amendment to a published standard and has concluded that they are unlikely to have a significant impact on the Bank's financial statements.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

2 Significant accounting policies (continued)

2.2 Investment securities

The Bank classifies its investment securities in the following categories: held-to-maturity investments and available-for-sale investments. Management determines the classification of its investments at initial recognition.

Held-to-maturity: Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. If the Bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

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

Regular purchases and sales of held to maturity and available-for-sale financial assets are recognised on trade-date, the date on which the Bank commits to purchase or sell the asset.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised in the statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the statement of income.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are recognised directly in the statement of income.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as income from investment securities in the statement of income.

Dividends on available-for-sale equity instruments are recognised in the statement of income when the entity's right to receive payment is established.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

2 Significant accounting policies (continued)

2.2 Investment securities (continued)

The Bank assesses at each date of statement of financial position whether there is objective evidence that a financial asset is impaired. 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 asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in statement of income – is removed from the statement of comprehensive income and recognised in the statement of income. Impairment losses recognised in the statement of income on available-for-sale equity instruments are not reversed through the statement of income.

The Bank assesses at each date of statement of financial position whether there is objective evidence that debt securities classified as available-for-sale and those held to maturity are impaired. Debt securities are impaired and impairment losses are incurred only if there is objective evidence that the Bank will not be able to collect all amounts due.

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings; and
- Deterioration of the borrower's competitive position.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of income. If an asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

3 Cash and balances with the Central Bank of UAE

	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
Cash in hand	409,529	358,966
Balances with the Central Bank of UAE	517,507	-
Statutory deposit with the Central Bank of UAE	1,516,293	1,385,227
Certificates of deposit with the Central Bank of UAE	100,000	100,000
	<u>2,543,329</u>	<u>1,844,193</u>

The statutory deposit with the Central Bank of UAE is not available to finance the day to day operations of the Bank.

4 Due from other banks

	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
Placements with other banks	738,277	1,640,467
Demand deposits	344,793	254,544
Clearing account balances	75,067	77,240
	<u>1,158,137</u>	<u>1,972,251</u>

The above represents deposits and balances due from:

Banks in UAE	813,394	1,632,715
Banks outside UAE	344,743	339,536
	<u>1,158,137</u>	<u>1,972,251</u>

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

5 Loans and advances

	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
5(a) Loans and advances		
Retail loans	19,488,263	18,345,762
Corporate loans	406,657	360,686
Total loans and advances (Note 5(b))	19,894,920	18,706,448
Provision for impairment (Note 5(c))	(344,285)	(337,978)
Net loans and advances	19,550,635	18,368,470

5(b) Loans and advances

Loans	19,521,678	18,316,740
Overdrafts	275,629	307,482
Loans against trust receipts	78,059	64,566
Bills discounted	6,771	13,170
Others	12,783	4,490
Total loans and advances	19,894,920	18,706,448

5(c) Provision for impairment

	Retail loans AED'000	Corporate loans AED'000	Total AED'000
Balance brought forward			
1 January 2012	305,351	32,627	337,978
Impairment charge/(release)(Note 5(d))	135,531	(32)	135,499
Written off during the period	(128,835)	(357)	(129,192)
Balance carried forward			
30 June 2012 (reviewed)	<u>312,047</u>	<u>32,238</u>	<u>344,285</u>
Balance brought forward			
1 January 2011	269,034	38,860	307,894
Impairment charge/(release)	344,753	(4,668)	340,085
Written off during the year	(308,436)	(1,565)	(310,001)
Balance carried forward			
31 December 2011 (audited)	<u>305,351</u>	<u>32,627</u>	<u>337,978</u>

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

5 Loans and advances (continued)

5(d) Impairment charge / (release) on loans and advances net of recovery

	Retail loans AED'000	Corporate loans AED'000	Total AED'000
Three months ended (reviewed)			
<u>30 June 2012</u>			
Impairment charge	65,396	26	65,422
Recovery during the period (net)	(11,269)	-	(11,269)
	<u>54,127</u>	<u>26</u>	<u>54,153</u>
<u>30 June 2011</u>			
Impairment charge	81,550	58	81,608
Recovery during the period (net)	(11,908)	-	(11,908)
	<u>69,642</u>	<u>58</u>	<u>69,700</u>
Six months ended (reviewed)			
<u>30 June 2012</u>	AED'000	AED'000	AED'000
Impairment charge/(release)	135,531	(32)	135,499
Recovery during the period (net)	(20,852)	-	(20,852)
	<u>114,679</u>	<u>(32)</u>	<u>114,647</u>
<u>30 June 2011</u>			
Impairment charge/(release) (Recovery)/write off during the period	177,152 (23,704)	(5,118) 2	172,034 (23,702)
	<u>153,448</u>	<u>(5,116)</u>	<u>148,332</u>

Net recovery mainly represents amounts subsequently recovered from fully written off loans.

5(e) Classified loans and advances

At 30 June 2012, the aggregate amount of non-performing loans amounted to AED 499.1 million (31 December 2011: AED 474.12 million). The provisions in relation to such loans amounted to AED 344.3 million as at 30 June 2012 (31 December 2011: AED 338 million).

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

6 Investment securities

	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
Securities available-for-sale		
Quoted debt securities	41,815	151,426
Securities held-to-maturity		
Quoted debt securities	1,544,688	1,012,387
Total investment securities	<u>1,586,503</u>	<u>1,163,813</u>

The composition of the investment portfolio by geography is as follows:

	30 June 2012 AED'000	31 December 2011 AED'000
UAE	1,471,633	1,126,793
Outside UAE	114,870	37,020
	<u>1,586,503</u>	<u>1,163,813</u>

The movement in investment securities is as follows:

	Securities available- for- sale AED'000	Securities held - to - maturity AED'000	Total AED'000
At 1 January 2012	151,426	1,012,387	1,163,813
Purchases	-	641,073	641,073
Maturities	(118,365)	(110,605)	(228,970)
Changes in fair value	8,754	-	8,754
Amortisation of discount / (premium)	-	1,833	1,833
At 30 June 2012 (reviewed)	<u>41,815</u>	<u>1,544,688</u>	<u>1,586,503</u>
At 1 January 2011	124,916	643,067	767,983
Purchases	-	349,070	349,070
Maturities	-	(55,095)	(55,095)
Changes in fair value	8,835	-	8,835
Amortisation of discount / (premium)	-	652	652
At 30 June 2011 (reviewed)	<u>133,751</u>	<u>937,694</u>	<u>1,071,445</u>

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

7 Property and equipment

	Land and buildings AED'000	Leasehold Improvements AED'000	Other fixed assets AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2012	503,297	94,339	368,612	271,677	1,237,925
Additions	9,363	265	8,027	91,498	109,153
Transfers	6,813	4,349	242,988	(254,150)	-
Disposals		(1,063)	(1,009)	-	(2,072)
At 30 June 2012	519,473	97,890	618,618	109,025	1,345,006
Depreciation					
At 1 January 2012	32,065	47,108	206,585	-	285,758
Charge for the period	7,832	6,462	31,958	-	46,252
Disposals	-	(813)	(855)	-	(1,668)
At 30 June 2012	39,897	52,757	237,688	-	330,342
Net book amount					
At 30 June 2012	479,576	45,133	380,930	109,025	1,014,664
At 31 December 2011	471,232	47,231	162,027	271,677	952,167

Other fixed assets include computer equipment, furniture and fixtures, equipment and motor vehicles. During the six month period ended 30 June 2012, the Bank has capitalized the costs pertaining to the core banking system. The balance of Capital work in progress mainly comprises of the costs pertaining to the development of systems for Islamic banking and improvement and set up costs for branches.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

7 Property and equipment (continued)

	Land and buildings	Leasehold improvements	Other fixed assets	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Cost					
At 1 January 2011	469,811	62,796	255,923	201,443	989,973
Additions	6,570	595	6,782	109,601	123,548
Transfers	15,137	9,625	44,192	(68,954)	-
Disposals	-	-	(9,421)	-	(9,421)
At 30 June 2011	491,518	73,016	297,476	242,090	1,104,100
Depreciation					
At 1 January 2011	17,389	36,293	164,343	-	218,025
Charge for the period	7,232	4,103	23,642	-	34,977
Disposals	-	-	(9,163)	-	(9,163)
At 30 June 2011	24,621	40,396	178,822	-	243,839
Net book amount					
At 30 June 2011	466,897	32,620	118,654	242,090	860,261
At 31 December 2010	452,422	26,503	91,580	201,443	771,948

Other fixed assets include computer equipment, furniture and fixtures, equipment and motor vehicles. Capital work in progress mainly comprised of the costs pertaining to the new core banking system which has been capitalized by the Bank during the six month period ended 30 June 2012.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

8 Other assets

	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
Interest receivable	156,645	144,957
Prepayments and deposits	53,234	49,104
Others	21,570	7,582
	<u>231,449</u>	<u>201,643</u>

9 Due to customers

	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
Time deposits	8,957,072	9,333,198
Current accounts	7,932,686	6,326,947
Savings deposits	2,518,679	1,912,133
Call deposits	868,875	717,887
	<u>20,277,312</u>	<u>18,290,165</u>

Time deposits include AED 295.2 million (31 December 2011: AED 321 million) held by the Bank as cash collateral for loans and advances granted to customers.

10 Subordinated debt

Subordinated debt of AED 384.47 million (31 December 2011: AED 684.47) represents the amount due to the UAE Ministry of Finance (MOF). The funds were received in accordance with an agreement dated 31 December 2009, as part of a facility set up by the Central Bank of UAE to provide liquidity support to banks operating in the UAE and for stimulating and maintaining economic activity in the country. The subordinated debt is repayable in five years from the date of agreement with an option to extend for a further 2 years. Interest during the tenor of the debt is payable every three months at the rate of 4% for the first two years, 4.5% in year three, 5% in year four and 5.25% from year five to seven.

During the six months ended 30 June 2012, an amount of AED 300 million was prepaid to the MOF after obtaining the necessary regulatory approvals. In accordance with the Central Bank of UAE guidelines, the Bank is treating this subordinated debt as eligible tier-2 capital.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

11 Other liabilities

	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
Interest payable	69,672	102,359
Accrued expenses	128,026	145,345
Managers cheques issued	121,009	73,802
Others	83,787	121,989
	<u>402,494</u>	<u>443,495</u>

12 Share capital and dividend

The authorised, issued and fully paid share capital of the Bank comprises 1,523.86 million shares of AED 1 each (31 December 2011: 1,385.33 million shares of AED 1 each).

At the meeting of the shareholders held on 22 April 2012, the shareholders of the Bank approved a stock dividend (issue of bonus shares) in respect of 2011 at 10% of the issued and paid up capital amounting to AED 138.53 million (2010: AED 230.88 million) and a cash dividend at 30% of the issued and paid up capital amounting to AED 415.6 million (2010: AED 230.88 million). Accordingly, the authorised and issued share capital was increased by the amount of the stock dividend.

13 Other reserves

Other reserves include legal reserve and voluntary reserve. In accordance with the Articles of Association of the Bank, 10% of the net profit for the year is to be transferred to a legal reserve until such time as the balance in the reserve equals 50% of the issued share capital and 10% of the net profit for the year is to be transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. No allocations to the legal reserve and the voluntary reserve have been made for the six month period ended 30 June 2012, as these will be effected at the year end, based on the Bank's results for the year ending 31 December 2012.

At their meeting on 22 April 2012, the shareholders of the Bank approved the creation of a non-distributable special reserve titled "Reserve - Regulatory Credit risk" and an appropriation of AED 240 million into this reserve account. This reserve will be maintained at a level of 1.5% of the credit risk weighted assets at the end of each financial year, as required by the Central Bank of UAE.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

14 Contingencies and commitments

	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
Commitments to extend credit	5,920,951	5,456,731
Letters of guarantee	366,302	346,037
Letters of credit	56,495	34,529
Acceptances	22,869	21,157
Capital commitments	38,453	34,267
	<u>6,405,070</u>	<u>5,892,721</u>

Commitments to extend credit represent approved unutilized credit limits provided to customers, which are revocable at the discretion of the Bank.

15 Forward foreign exchange contracts

Forward foreign exchange contracts comprise commitments to purchase foreign and domestic currencies on behalf of customers.

Outstanding forward foreign exchange transactions at 30 June 2012 and 31 December 2011 are as follows:

	Contract amount AED'000	Fair value AED'000
30 June 2012 (reviewed)	<u>166,931</u>	<u>15</u>
31 December 2011 (audited)	<u>208,173</u>	<u>74</u>

The fair values of the outstanding foreign exchange forward contracts are recorded in other liabilities.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

16 Interest income and expense

	<u>Three months ended</u> <u>30 June (reviewed)</u>		<u>Six months ended 30</u> <u>June (reviewed)</u>	
	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000
Interest income				
Commercial loans and overdrafts	320,104	275,042	628,388	534,952
Retail loans	140,101	136,442	279,520	274,463
Credit cards	153,614	152,357	308,099	295,322
Auto loans	20,798	14,653	39,682	27,197
Other banks	1,212	1,215	2,512	2,450
Deposits with the Central Bank of UAE	145	1,031	286	2,222
Others	2,660	3,087	4,992	6,159
	<u>638,634</u>	<u>583,827</u>	<u>1,263,479</u>	<u>1,142,765</u>
Interest expense				
Due to customers	80,891	88,788	159,712	195,663
Subordinated debt	7,786	6,921	15,572	13,765
Borrowings from other banks	20	19	49	40
	<u>88,697</u>	<u>95,728</u>	<u>175,333</u>	<u>209,468</u>

17 Fee and commission income

	<u>Three months ended</u> <u>30 June (reviewed)</u>		<u>Six months ended 30</u> <u>June (reviewed)</u>	
	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000
Credit cards	49,226	45,125	96,172	90,895
Commercial loans	17,463	25,927	36,864	113,203
Retail loans	3,229	4,043	6,440	24,612
Mortgage loans	5,712	4,954	11,639	9,297
Auto loans	4,142	3,542	7,984	6,747
Trade finance	3,917	2,592	6,929	5,204
Investments	19,308	12,427	32,307	17,665
Others	22,000	22,639	42,578	40,232
	<u>124,997</u>	<u>121,249</u>	<u>240,913</u>	<u>307,855</u>

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

18 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. In accordance with IAS 33 - Earnings Per Share, the impact of bonus shares issued have been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented. The weighted average number of ordinary shares during the period ended 30 June 2012 amounted to 1,523,859,480 shares (30 June 2011: 1,523,859,480 shares).

19 Fiduciary activities

The Bank holds assets in a fiduciary capacity for its customers without recourse to itself. At 30 June 2012, such assets amounted to AED 820 million (31 December 2011: AED 554.21 million) and are excluded from the condensed interim financial information of the Bank.

20 Cash and cash equivalents

	At 30 June	
	2012 (reviewed) AED'000	2011 (reviewed) AED'000
Cash in hand and current account with the Central Bank of UAE (Note 3)	927,036	452,156
Due from other banks (Note 4)	1,158,137	848,783
	<u>2,085,173</u>	<u>1,300,939</u>
Less : Due from other banks with original maturity of 3 months or more	-	(89,513)
	<u><u>2,085,173</u></u>	<u><u>1,211,426</u></u>

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

21 Operating segments

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided to the Executive Committee (the chief operating decision-maker), which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Bank meet the definition of a reportable segment under IFRS 8.

The Bank has three main business segments:

- Retail banking – comprising private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages;
- Corporate banking – comprising of loans, advances, deposits and trade finance transactions with corporate bodies including government and public bodies, small and medium entities; and
- Treasury – incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the Central Bank of UAE, none of which constitute a separately reportable segment.

As the Bank's segment operations are all financial with a majority of revenues deriving from interest and fees and commission income, the Executive Committee relies primarily on revenue and segmental results to assess the performance of the segment.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment revenue. Interest charged for these funds is based on the Bank's cost of funds policy. There are no other material items of income or expense between the business segments.

The Bank's management reporting is based on a measure of operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the statement of financial position items.

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

21 Operating segments (continued)

The segment information provided to the Executive Committee for the reportable segments for the period ended 30 June 2012 and 30 June 2011 is as follows:

	Retail banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Unallocated cost AED'000	Total AED'000
30 June 2012					
External interest income	1,245,628	15,053	2,798	-	1,263,479
External interest expense	(105,542)	(43,452)	(26,339)	-	(175,333)
Interest income / expense from other segments	(57,825)	35,143	22,682	-	-
Net Interest Income	1,082,261	6,744	(859)	-	1,088,146
Non interest income	252,670	15,270	52,118	-	320,058
Operating Income	1,334,931	22,014	51,259	-	1,408,204
Operating expense excluding depreciation	(418,849)	(33,691)	(2,628)	(123,455)	(578,623)
Depreciation	(25,089)	(1,019)	(46)	(20,098)	(46,252)
Total Operating expense	(443,938)	(34,710)	(2,674)	(143,553)	(624,875)
Impairment charge net of (recovery) / write off	(114,679)	32	-	-	(114,647)
Net profit / (loss)	776,314	(12,664)	48,585	(143,553)	668,682
Segment assets	19,813,776	374,774	4,820,506	-	25,009,056
Unallocated assets	-	-	-	1,075,661	1,075,661
Total assets	19,813,776	374,774	4,820,506	1,075,661	26,084,717
Segment liabilities	12,299,142	7,150,739	1,322,323	-	20,772,204
Unallocated liabilities	-	-	-	352,288	352,288
Total liabilities	12,299,142	7,150,739	1,322,323	352,288	21,124,492

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

21 Operating segments (continued)

	Retail banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Unallocated cost AED'000	Total AED'000
30 June 2011					
External interest income	1,122,463	15,630	4,672	-	1,142,765
External interest expense	(130,073)	(54,094)	(25,301)	-	(209,468)
Interest income (expense) from other segments	(57,165)	35,855	21,310	-	-
Net Interest Income	935,225	(2,609)	681	-	933,297
Non interest income	319,583	10,220	38,190	-	367,993
Operating Income	1,254,808	7,611	38,871	-	1,301,290
Operating expense excluding depreciation	(398,067)	(26,439)	(2,236)	(102,090)	(528,832)
Depreciation	(19,025)	(533)	(27)	(15,392)	(34,977)
Total Operating expense	(417,092)	(26,972)	(2,263)	(117,482)	(563,809)
Impairment charge net of (recovery) / write off	(153,448)	5,116	-	-	(148,332)
Net profit / (loss)	684,268	(14,245)	36,608	(117,482)	589,149
At 31 December 2011					
Segment assets	18,545,904	328,201	4,552,347	-	23,426,452
Unallocated assets	-	-	-	1,076,085	1,076,085
Total assets	18,545,904	328,201	4,552,347	1,076,085	24,502,537
Segment liabilities	11,588,574	5,784,399	2,187,229	-	19,560,202
Unallocated liabilities	-	-	-	245,463	245,463
Total liabilities	11,588,574	5,784,399	2,187,229	245,463	19,805,665

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

22 Related parties balances

Related parties comprise key management, businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. During the period, the Bank entered into transactions with related parties in the ordinary course of business. The transactions with related parties and balances arising from these transactions are as follows:

	Six months ended 30 June	
	2012 (reviewed) AED'000	2011 (reviewed) AED'000
Transactions during the period		
Interest income	762	769
Interest expense	5,592	10,647
Commission income	53	613
Directors' remuneration	3,022	5,442
Remuneration payable to key management personnel	9,961	7,767
	<u>9,961</u>	<u>7,767</u>
	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
Balances		
Loans and advances:		
- Shareholders and their related companies	2,159	-
- Directors and their related companies	157	2,235
- Key management personnel	35,447	38,778
	<u>37,763</u>	<u>41,013</u>
Due to customers:		
- Shareholders and their related companies	1,632,832	934,513
- Directors and their related companies	48,433	36,733
- Key Management personnel	36,410	20,339
	<u>1,717,675</u>	<u>991,585</u>
Irrevocable commitments and contingent liabilities		
- Shareholders and their related companies	79,075	51,920
- Directors and their related companies	498	478
	<u>79,573</u>	<u>52,398</u>

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

23 Capital adequacy

The Bank calculates its risk asset ratio in accordance with guidelines established by the Central Bank of UAE prescribing the ratio of total capital to total risk-weighted assets in line with the with the Basel I Accord. The risk weighted assets and the various components of capital are given below.

	30 June 2012 (reviewed) AED'000	31 December 2011 (audited) AED'000
Tier 1 capital		
Ordinary share capital	1,523,859	1,385,327
Share premium	110,350	110,350
Statutory and other reserves	2,294,038	1,677,237
Retained earnings	363,296	320,418
Total	<u>4,291,543</u>	<u>3,493,332</u>
Tier 2 capital		
Subordinated debt	384,467	684,467
Total capital base	<u>4,676,010</u>	<u>4,177,799</u>
Risk weighted assets		
On balance sheet	21,167,942	20,044,588
Off balance sheet	282,774	276,944
Total risk weighted assets	<u>21,450,716</u>	<u>20,321,532</u>
Risk asset ratio on total capital base (%)	21.80%	20.56%
Risk asset ratio on tier 1 capital base (%)	20.01%	17.19%
Minimum risk asset ratio required by the Central Bank of UAE	<u>12.00%</u>	<u>12.00%</u>

The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed interim financial information for the six months ended 30 June 2012 (continued)

24 Subsidiaries

The Bank incorporated two subsidiaries during the period ended 30 June 2012. These subsidiaries are RAK Islamic Finance Pvt. J.S.C in which the Bank owns 99.9% and BOSS FZCO in which the Bank owns 80%. RAK Islamic Finance Pvt. J.S.C has an authorised and issued capital of AED 100 million, and was incorporated to enable the Bank to launch its Islamic operations and sell sharia compliant financial products. The Bank is in the final stages for obtaining regulatory approvals for commencement of operations. BOSS FZCO has been incorporated to provide back office support services to the Bank. BOSS FZCO has an authorised and issued share capital of AED 500,000 and was formed under the Dubai Silicon Oasis Authority guidelines. Both subsidiaries are currently insignificant to the Bank's overall financial position and hence have not yet been consolidated.