

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

**Directors' report and consolidated
financial statements for the year ended
31 December 2014**

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

Directors' report and consolidated financial statements for the year ended 31 December 2014

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

Directors' Report to the Shareholders

We are pleased to present the results of your Bank for the financial year ended 31 December 2014. Net profit for the year amounted to AED 1,454.6 million, a moderate increase of AED 23.8 million over the previous year, continuing the Bank's leadership position in the UAE in terms of Return on Average Assets of 4.4% and Return on Average Equity of 22.2%. Total assets stood at AED 34.8 billion, increasing by 15.6% compared to 31 December 2013. Gross loans and advances closed at AED 25.8 billion, up by 15.4% over the previous year.

The underlying business of most of our product lines performed exceptionally well during 2014 and we saw large increases in fee income across the board. In addition to the robust performance of our Retail Banking division, our 2014 strategy saw a renewed focus on the SME and Commercial banking segment whose portfolio more than doubled by the end of the year.

Financial Performance

The AED 23.8 million increase in the 2014 net profit over that of 2013 was mainly due to a rise of AED 404.8 million in operating income, up by 12.9% over the previous year. Operating profit before impairment losses grew by AED 278.5 million over 2013. This was offset by an increase of AED 254.7 million in provisions for loan impairment, up by 74.8% from the previous year, as a result of our decision to take a further conservative stance with regard to loan provisioning.

Total operating income grew by AED 404.8 million to AED 3.56 billion because of an increase of AED 291.7 million in net interest income and income from Islamic financing, compared to the previous year, to AED 2.76 billion. Interest income from conventional loans and investments increased by 4% over the previous year, while cost of deposits dropped further by 16.3%. Net income from Shari'ah-compliant financing was up by AED 143.5 million which was in line with the increase in Islamic Financing portfolio.

Non-interest income grew by AED 113.1 million to AED 797.9 million on the back of a 23.5% increase in net fees and commission income compared to 2013. Foreign exchange and derivative income was up by AED 12.0 million and other income increased by AED 11.9 million compared to the previous year. There was an AED 34.9 million decrease in investment income as the Bank had made a notably large profit from the sale of bonds and equities in 2013.

Operating expenses increased by AED 126.3 million over 2013, up 9.2% as a result of a rise in employment costs in support of business growth as well as larger investments in information technology. Despite these investments, the increase in operating costs remained below the total operating income growth of 12.9% indicating healthy profitability levels with the Bank's cost to revenue ratio dropping to 42.3% compared to 43.8% in 2013.

Non-performing loans were steady at 2.4% and net credit losses to average loans and advances closed at 2.5%. As always, the Bank is well provisioned against loan losses with a conservative loan loss coverage ratio of 87.2% compared to 73.3% at the end of 2013 and this coverage ratio does not take into consideration mortgaged properties and other realizable asset collateral available against the loans.

Total assets increased by 15.6% to AED 34.8 billion compared to the end of 2013 with the major contributions coming from gross loans and advances and the investment portfolio which went up by 15.4% and 40.4% respectively. The Bank's investment portfolio at the end of 2014 stood at AED 3.8 billion and is entirely denominated in USD or AED.

The Business Banking segment, which covers SME and commercial lending, grew by 131.4% with AED 1.3 billion over the previous year. The newly launched Asset-based finance for Business Banking customers managed to cross AED 100 million by yearend in just six months. Our 'Amal' Islamic Banking unit was up by 188.9% over the last year as it continues to grow, achieving an increase of AED 2.2 billion in its financing portfolio.

Customer deposits went up by AED 6.9% to AED 24.7 billion compared to 2013. The growth came mainly from a rise of AED 2 billion in conventional demand deposits, and AED 295.9 million in conventional savings deposits which was offset by AED 1.6 billion drop in conventional time deposits. Islamic customer deposits grew by AED 627.1 million to AED 2.6 billion compared to the previous year.

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

Directors' Report to the Shareholders (continued)

During the first half of 2014, the Bank successfully issued USD 500 million bond under its USD 1 billion medium term note program, through its subsidiary RAKFunding Cayman Ltd, to take advantage of the low-cost financing opportunities in the bond market, to proactively tackle the duration mismatch from funding longer tenure loans using short-term deposits, and to diversify the investor base. The note, which was issued at a discounted rate of 99.275%, matures in 2019 and carries a fixed interest rate of 3.25% per annum.

In August 2014, the Bank received approval from shareholders to acquire a majority stake in Ras Al Khaimah National Insurance Company (RAKNIC) at AED 3.64 per share. The Bank received the UAE Central Bank approval on 6th January 2015 and is planning to complete the transaction during the first quarter of 2015.

The Bank's Tier 1 ratio as per Basel II after taking into consideration the profit for 2014 and the proposed dividend was 26.5% at yearend (subject to shareholders and UAE Central Bank approval), compared to 29.0% at the end of 2013, against a requirement of 12% set by the UAE Central Bank. We find that this level of capital provides the Bank with ample room for growth in 2015. The regulatory liquid asset ratio at the end of the year was 20.0%, compared to 19.8% at the end of 2013, and advances to stable resources ratio stood comfortably at 88.2% compared to 88.1% at the end of 2013.

Ratings

The Bank is currently rated by the following leading rating agencies. The ratings have remained unchanged during the year:

Rating Agency	Last Update	Deposits	Financial Strength	Support
Moody's	October 2014	Baa1 / P-2	D+	-
Fitch	March 2014	BBB+ / F2	C	2
Capital Intelligence	August 2014	A-/ A2	BBB+	2

Dividend and appropriation of profits

At the board meeting held on 26th January 2015, the Directors recommended a cash dividend of 50%. The Directors consider that the Bank is well placed to meet the continuing challenges which will be faced during 2015. The dividend recommendations will result in 42.4% of net profit being retained within the Bank's shareholders equity thereby increasing capital and reserves to strengthen the Bank's overall position and provide support for future growth.

The Directors propose to increase the general banking risk reserve by AED 100 million, credit risk reserve by AED 100 million and regulatory credit risk reserve by AED 53 million to align it at 1.5% of the Bank's total credit risk weighted assets. These measures will increase the Bank's shareholders' equity to AED 6.3 billion after payment of the proposed cash dividend.

Bank Recognition in 2014:

- 1st in the UAE by Return on Assets and the 17th in the world according to The Banker's Top 1000 Bank Rankings for 2014
- Best Internet Banking Initiative Award at the Asian Banker Awards 2014 – Middle East Retail Product Awards for Click & Collect
- Best Core Banking Implementation Project Award in the Middle East at The Asian Banker Awards 2014 – Technology Implementation
- Best Payment Program award for Small to Medium Enterprises (SMEs) in the Middle East, Africa, and South East Asia for Titanium Business Credit Card by MasterCard
- Best New Employer of the Year by HCT Dubai

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

Directors' Report to the Shareholders (continued)

Outlook for 2015

As the Bank anticipated, the Net Profit growth in 2014 was subdued by higher loan provisioning due to pre-emptive provisioning on restructured loans in one of our loan portfolios. However, management was able to successfully drive Asset growth and fee income in 2014 from all of its other lines of business and ensure very solid growth in the Bank's top line revenue.

With solid results for 2014, the Bank is in a strong competitive position to increase activity and market share in the coming year. In addition to introducing enhanced Remittance services, the Bank plans to launch innovative Retail and Business Banking products and services throughout the year. We will also strengthen the Bank's visibility by increasing our branch and ATM network across the country while continuing to complement it with additional digital banking solutions. In 2015, our business strategy will see the Bank explore new opportunities for revenue growth across Retail Banking, Business Banking, and Islamic Banking, and take advantage of new opportunities along the way deemed to be in the best interest of our shareholders.

We are grateful for the continued full support of His Highness Sheikh Saud bin Saqr Al-Qasimi, Member of the Supreme Council and Ruler of Ras Al Khaimah and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the Bank for their performance during 2014 and the Bank's customers for their continued support.



H.E. Shaikh Omar Bin Saqr Al-Qasimi
Chairman
For and on behalf of Board of Directors
26th January 2015



Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C.)

Report on the consolidated financial statements

We have audited the accompanying consolidated financial statements of The National Bank of Ras Al-Khaimah (P.S.C.) ("the Bank") and its subsidiaries (together referred to as "Group"), which comprise the consolidated statements of financial position as of 31 December 2014 and the consolidated statement of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

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 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 judgement, 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.



**Independent auditors' report to the shareholders of
The National Bank of Ras Al-Khaimah (P.S.C.) (continued)**

Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2014 and its financial performance and its 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 (8) of 1984, as amended, we report that:

- (i) we have obtained all the information we considered necessary for the purpose of our audit;
- (ii) the consolidated financial statements of the Bank comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended and the Articles of Association of the Bank;
- (iii) the Bank has maintained proper books of account and the consolidated financial statements are in agreement therewith;
- (iv) the financial information included in the Directors' report is consistent with the books of account of the Bank; and
- (v) nothing has come to our attention, which causes us to believe that the bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2014.

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

PricewaterhouseCoopers
26 January 2015


Atmin H Nasser
Registered Auditor Number 307
Dubai, United Arab Emirates

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


Consolidated statement of financial position

	Note	At 31 December	
		2014 AED'000	2013 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	5	4,217,469	3,622,262
Due from other banks	6	305,947	543,899
Loans and advances, net	7,8	25,266,475	21,959,245
Investment securities	9	3,785,289	2,695,952
Property and equipment, net	10	937,714	1,028,873
Other assets	11	317,263	276,538
Total assets		34,830,157	30,126,769
LIABILITIES AND SHAREHOLDERS' EQUITY			
LIABILITIES			
Due to other banks	12	761,807	3,357
Due to customers	13,14	24,651,408	23,069,147
Debt securities issued	34	1,667,629	-
Other liabilities	15	545,195	472,745
Provision for employees' end of service benefits	16	72,997	65,450
Total liabilities		27,699,036	23,610,699
SHAREHOLDERS' EQUITY			
Share capital	17	1,676,245	1,676,245
Share premium	18	110,350	110,350
Retained earnings		1,784,065	1,452,439
Other reserves	19	3,560,461	3,277,036
Equity attributable to equity holders of the Bank		7,131,121	6,516,070
Non-controlling interests		-	-
Total shareholders' equity		7,131,121	6,516,070
Total liabilities and shareholders' equity		34,830,157	30,126,769

These consolidated financial statements were authorised for issue by the Board of Directors on 26 January 2015 and were signed on its behalf by:



 Sheikh Omar Bin Saqr Al-Qasimi
 Chairman



 Peter William England
 Chief Executive Officer

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

Consolidated income statement

	Note	Year ended 31 December	
		2014 AED'000	2013 AED'000
Interest income	22	2,785,319	2,677,480
Interest expense	22	(207,116)	(247,505)
Net interest income		<u>2,578,203</u>	<u>2,429,975</u>
Income from Islamic financing	23	209,290	47,116
Islamic profit distribution	23	(30,287)	(11,584)
Net income from Islamic financing		<u>179,003</u>	<u>35,532</u>
Net interest income and income from Islamic financing		<u>2,757,206</u>	<u>2,465,507</u>
Net fees and commission income	24	652,945	528,863
Foreign exchange and derivative income, net		86,813	74,800
Investment income	9(c)	6,435	41,308
Other operating income		51,753	39,849
Non-interest income		<u>797,946</u>	<u>684,820</u>
Operating income		<u>3,555,152</u>	<u>3,150,327</u>
Operating expenses	25	(1,505,219)	(1,378,886)
Operating profit before provision for impairment		<u>2,049,933</u>	<u>1,771,441</u>
Provision for impairment of loans and advances net of write backs	7(d)	(595,331)	(340,623)
Net profit for the year		<u>1,454,602</u>	<u>1,430,818</u>
Attributed to:			
Equity holders of the Bank		1,454,602	1,430,818
Non-controlling interests		-	-
Net profit for the year		<u>1,454,602</u>	<u>1,430,818</u>
Earnings per share			
Basic and diluted in AED	27	<u>0.87</u>	<u>0.85</u>

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

Consolidated statement of comprehensive income

	Note	Year ended 31 December	
		2014	2013
		AED'000	AED'000
Net profit for the year		1,454,602	1,430,818
Items that may be re-classified subsequently to the income statement			
Changes in fair value of available-for-sale investment securities	9(b)	2,208	26,156
Release of fair value to income statement on disposal of available-for-sale investment securities	9(c)	(3,636)	(26,576)
Total other comprehensive income		(1,428)	(420)
Total comprehensive income for the year		<u>1,453,174</u>	<u>1,430,398</u>
Attributed to:			
Equity holders of the Bank		1,453,174	1,430,398
Non-controlling interests		-	-
Total comprehensive income for the year		<u>1,453,174</u>	<u>1,430,398</u>

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

Consolidated statement of changes in equity

Note	Share capital	Share premium	Retained earnings	Other reserves (see note 19)	Equity attributable to equity holders of the Bank	Non-controlling interests	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2013	1,523,859	110,350	1,183,109	2,877,897	5,695,215	-	5,695,215
Total comprehensive income for the year	-	-	1,430,818	(420)	1,430,398	-	1,430,398
Transfer to regulatory credit risk reserve	-	-	(26,000)	26,000	-	-	-
Transfer to legal reserve	-	-	(143,082)	143,082	-	-	-
Transfer to voluntary reserve	-	-	(30,477)	30,477	-	-	-
Transfer to credit risk reserve	-	-	(100,000)	100,000	-	-	-
Transfer to general banking reserve	-	-	(100,000)	100,000	-	-	-
Issue of bonus shares	152,386	-	(152,386)	-	-	-	-
Dividend paid to equity holders of the Bank	-	-	(609,543)	-	(609,543)	-	(609,543)
At 31 December 2013	1,676,245	110,350	1,452,439	3,277,036	6,516,070	-	6,516,070
Total comprehensive income for the year	-	-	1,454,602	(1,428)	1,453,174	-	1,453,174
Transfer to regulatory credit risk reserve	-	-	(53,000)	53,000	-	-	-
Transfer to legal reserve	-	-	(30,386)	30,386	-	-	-
Transfer to voluntary reserve	-	-	(1,467)	1,467	-	-	-
Transfer to credit risk reserve	-	-	(100,000)	100,000	-	-	-
Transfer to general banking reserve	-	-	(100,000)	100,000	-	-	-
Dividend paid to equity holders of the Bank	-	-	(838,123)	-	(838,123)	-	(838,123)
At 31 December 2014	1,676,245	110,350	1,784,065	3,560,461	7,131,121	-	7,131,121

The notes from 1 to 37 form an integral part of these consolidated financial statements

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

Consolidated statement of cash flows

	Note	Year ended 31 December	
		2014 AED'000	2013 AED'000
Operating activities			
Net profit for the year		1,454,602	1,430,818
Adjustments:			
Provision for impairment of loans and advances net of write backs	7(d)	595,331	340,623
Depreciation	10,25	130,000	126,908
Provision for employees' end of service benefits	16	17,968	13,776
Gain on disposal of property and equipment		(1,182)	(465)
Amortisation of premium relating to securities held to maturity	9(b)	15,784	13,399
Gain on sale of held for trading securities	9(c)	(1,334)	-
Gain on sale of available for sale investment securities	9(c)	(3,636)	(26,576)
Loss /(gain) on sale of held to maturity investment securities	9(c)	709	(8,410)
Operating cash flows before payment of employees' end of service benefits and changes in assets and liabilities		2,208,242	1,890,073
Payment of employees' end of service benefits	16	(10,421)	(9,768)
Changes in assets and liabilities:			
Statutory deposits with the UAE Central Bank	5	(415,411)	(460,456)
Certificate of deposits with the UAE Central Bank with original maturities of over 3 months	5	(250,000)	-
Due from other banks with original maturities of three months or over		-	206,952
Loans and advances (net of charge for impairment and amount written off / back)	7	(3,902,561)	(2,016,441)
Other assets	11	(40,725)	(32,364)
Due to other banks (net of amounts due to the UAE Central Bank)	12	758,450	(97,108)
Due to customers	13	1,582,261	2,349,422
Other liabilities	15	72,450	(67,169)
Net cash generated from operating activities		2,285	1,763,141
Investing activities			
Purchase of investment securities	9(b)	(1,253,955)	(1,935,575)
Purchase of property and equipment	10	(45,111)	(120,343)
Proceeds from maturity / disposal of investment securities	9(b,c)	151,667	847,668
Proceeds from disposal of property and equipment		7,452	800
Net cash used in investing activities		(1,139,947)	(1,207,450)
Financing activities			
Debt securities issued	34	1,667,629	-
Dividend paid to equity holders of the Bank	28,17	(838,123)	(609,543)
Dividend paid to non- controlling interests	28,17	-	-
Net cash generated/ (used) in financing activities		829,506	(609,543)
Net decrease in cash and cash equivalents		(308,156)	(53,852)
Cash and cash equivalents at the beginning of the year		1,310,347	1,364,199
Cash and cash equivalents at the end of the year	30	1,002,191	1,310,347

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

Notes to the consolidated financial statements for the year ended 31 December 2014

1 Incorporation and principal activities

The National Bank of Ras Al-Khaimah (“the Bank”) is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates (“UAE”) in accordance with the UAE Federal law No. 8 of 1984 (as amended) and listed on the Abu Dhabi Securities Exchange. The head office of the Bank is located at the National Bank of Ras Al-Khaimah building, Al Rifa area, Exit No. 129, Sheikh Mohammed Bin Zayed road, Ras Al-Khaimah, UAE.

The Bank is engaged in providing retail banking and commercial banking, services through a network of thirty four branches in the UAE.

The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and four subsidiaries. These subsidiaries are RAK Islamic Finance Company Pvt. J.S.C, BOSS FZCO, RAK Technologies FZCO and RAK funding Cayman Limited. (together referred as the “Group”).The consolidated financial statements comprises the Bank and its subsidiaries. Refer to note 33 for details of the subsidiaries.

The consolidated financial statements comprises the Bank and its subsidiaries (together referred to as “the Group”)

2 Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”) and IFRS Interpretation Committee (IFRS IC) interpretations applicable to the companies reporting under IFRS. The consolidated financial statements are prepared under the historical cost convention except for held for trading and available-for-sale financial assets and derivative financial instruments which have been measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Standards and amendments to published standards effective for the Group's accounting period beginning on 1 January 2014

Topic	Key requirements	Effective date
Amendments to IFRS 10, 12 and IAS 27 on consolidation for investment entities	These requirements relate to only investment entities, therefore do not apply to the Group.	1 January 2014
Amendment to IAS 32, 'Financial instruments: Presentation', on asset and liability offsetting	These amendments are to the application guidance in IAS 32, 'Financial instruments: Presentation', and clarify some of the requirements for offsetting financial assets and financial liabilities on the balance sheet.	1 January 2014
Amendment to IAS 36, 'Impairment of assets' on recoverable amount disclosures	This amendment addresses the disclosure of information about the recoverable amount of impaired assets if that amount is based on fair value less costs of disposal.	1 January 2014
Amendment to IAS 39, 'Financial instruments: recognition and measurement' on novation of derivatives	This amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument to a central counterparty meets specified criteria.	1 January 2014

Other than the above, there are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning January 1, 2014 that have had a material impact on the Group's consolidated financial statements.

New standards, amendments and interpretations effective for accounting periods beginning after 1 January 2014 and which have not been early adopted

Topic	Key requirements	Effective date
Amendment to IAS 19, 'Employee benefits' regarding employee or third party contributions to the defined benefit plans.	The amendment applies to contributions from employees or third parties to defined benefit plans and clarifies the treatment of such contributions. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The objective of the amendment is to simplify the accounting for contributions that are independent of the number of years of employee service, for example employee contributions that are calculated according to a fixed percentage of salary. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employee's working lives.	1 July 2014
IFRS 13 'Fair value measurement'	IFRS 13, 'Fair value measurement' is amended to clarify that the portfolio exception in IFRS 13 applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9. IFRS 13, 'Fair value' which amended the basis of conclusions to clarify that it did not intend to remove the ability to measure short term receivables and payables at invoice amounts where the effect of discounting is immaterial.	1 July 2014
IAS 24, 'Related party disclosures'	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

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

2 Significant accounting policies (continued)

Topic	Key requirements	Effective date
IFRS 8 'Operating segments'	IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in aggregating operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.	1 July 2014
Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation.	<p>This amendment clarifies that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset.</p> <p>This has also clarified 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. These are where the intangible asset is expressed as a measure of revenue; or where it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.</p>	1 January 2016
IAS 19, 'Employee benefits'	IAS 19, 'Employee benefits' – The amendment clarifies that, when determining the discount rate for post-employment benefit obligations, it is the currency that the liabilities are denominated in that is important, not the country where they arise. The assessment of whether there is a deep market in high-quality corporate bonds is based on corporate bonds in that currency, not corporate bonds in a particular country. Similarly, where there is no deep market in high-quality corporate bonds in that currency, government bonds in the relevant currency should be used. The amendment is retrospective but limited to the beginning of the earliest period presented.	1 July 2016
IFRS 15, 'Revenue from contracts with customers'	<p>This is the converged standard on revenue recognition. It replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations.</p> <p>Revenue is recognised when a customer obtains control of a good or service. A customer obtains control when it 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.</p> <p>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.</p>	1 January 2017

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

2 Significant accounting policies (continued)

Topic	Key requirements	Effective date
IFRS 9, 'Financial instruments'	<p>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.</p> <p>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.</p> <p>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 use for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.</p>	1 January 2018

Except for IFRS9, the Management anticipates that these new standards and amendments are not expected to have a material impact on the Group's consolidated financial statements and will be adopted in the consolidated financial statements in the initial period when they become mandatorily effective. The Group is still to assess the impact of adoption of IFRS 9 which is likely to have more significant impact on the Group's results once adopted.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

2 Significant accounting policies (continued)

(b) Consolidation

The consolidated financial statements incorporate the consolidated financial statements of National Bank of Ras Al-Khaimah (P.S.C.) and its subsidiaries (collectively referred to as "Group") as set in Note 33 below.

Subsidiaries

Subsidiaries are all 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.

Transactions eliminated on consolidation

Intra-group balances and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(c) Loans and advances and provision for impairment

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are initially recognized at fair value, which is the cash consideration to originate or purchase a loan including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

The Group assesses at each financial position date whether there is objective evidence that loans and advances are impaired. Loans and advances are impaired and impairment losses are incurred only if there is objective evidence that the Group will not be able to collect all amounts due.

The criteria that the Group 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;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

2 Significant accounting policies (continued)

(c) Loans and advances and provision for impairment (continued)

The Group first assesses whether objective evidence of impairment exists either individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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 consolidated income statement. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with similar credit risk characteristics. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets reflect and are directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectable, it is written off against the related provision for impairment. This is normally done within six to twelve month of the loan becoming past due, depending on type of the loan. Non performing mortgage loans, however, are written off after considering each individual case. If no related provision exists, it is written off to the consolidated income statement. Subsequent recoveries are credited to the consolidated income statement.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

2 Significant accounting policies (continued)

(c) Loans and advances and provision for impairment (continued)

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

(d) Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Salam, Mudaraba, and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are as per Note 2(c).

Murabaha financing

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

Salam

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Group (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal- customer) and the other party (the Mudarib- the Group) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal.

Wakala

An agreement between the Group and customer whereby one party (Rab Al Mal-principal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

Ijara

Ijara financing is a finance lease agreement whereby the Bank (lessor) leases an asset based on the customer's (lessee) request and promise to lease the assets for a specific period in lieu of rental instalments. Ijara ends in transferring the ownership of the asset to the lessee at the end of the lease inclusive of the risks and rewards incident to an ownership of the leased assets. Ijara assets are stated at amounts equal to the net investment outstanding in the lease including the income earned thereon less impairment provisions.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

2 Significant accounting policies (continued)

(e) Investment securities

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

Trading securities: Investment securities held at fair value through profit and loss are those which are acquired principally for the purpose of trading with the objective of generating profit.

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

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 advances, (b) held-to-maturity investments.

Regular purchases and sales of financial assets at held to maturity and available for sale are recognised on settlement date.

Financial assets, except assets that are held for trading are initially recognised at fair value plus transaction costs. For financial assets acquired for trading, transaction costs are charged to profit and loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group 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 directly in consolidated statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised through the consolidated statement of comprehensive income is recognised in the income statement.

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

The fair values of quoted investments in active markets are based on current bid prices, as the Group considers the bid prices to be most representative of fair value, if the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques.

Interest earned whilst holding investment securities is reported as under interest income in the consolidated income statement.

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

The Group assesses at each financial position date 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 profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement. Impairment on debt securities classified as available-for-sale and those held to maturity is assessed as outlined in the accounting policy for impairment of loans and advances (Note 2(c)).

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

2 Significant accounting policies (continued)

(f) Due from banks

Amounts due from banks are initially recognized at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amount due from banks is assessed as outlined in the accounting policy for loans and advances (Note 2(c)).

(g) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months excluding the statutory deposit required to be maintained with the UAE Central Bank.

(h) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments are disclosed in note 21.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The group only applies fair value hedge accounting for hedging fixed interest risk on debt securities issued. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate debt securities issued is recognised in the income statement within 'Interest expense'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'Other operating income'. Changes in the fair value of the hedge fixed rate debt securities issued attributable to interest rate risk are recognised in the income statement within 'Interest expense'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(i) Debt securities issued

Debt issued is recognised initially at fair value, net of transaction costs incurred. After initial measurement, debt issued is subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

2 Significant accounting policies (continued)

(i) Property and equipment

Land and buildings comprise branches, offices and certain residential premises purchased for occupation of management and staff. Property and equipment is stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other assets is calculated using the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	15 - 30
Computer equipment and software	4-15
Furniture, fixtures and equipment	4 - 6
Leasehold improvements	2- 6
Motor vehicles	2- 4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income.

(i) Employee benefits

i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees. Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

ii) Defined benefit plan

The defined benefit obligation is calculated annually using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation

Provision is also made for the end of service benefits due to non-UAE nationals 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 employee's end of service benefits' in the statement of financial position.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

2 Significant accounting policies (continued)

(j) *Employee benefits (continued)*

iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to financial position date. This provision is included in other liabilities.

(k) *Fiduciary assets*

Assets and the income arising on the Bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognised in accordance with the accounting policy on fees and commission income (Note 2(q)).

(l) *Share capital*

(i) Share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

(m) *Provisions and contingent liabilities*

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

(n) *Due to customers*

Due to customers are recognised initially at fair value, net of transaction costs incurred. Due to customers are subsequently carried at amortised cost using the effective interest method.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

2 Significant accounting policies (continued)

(o) Foreign currencies

Items included in the consolidated financial statements of the Group are measured using UAE Dirham's which is the currency of the primary economic environment in which the Group operates ('functional currency'). The consolidated financial statements are presented in UAE Dirham's. Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirham's at the rates ruling at the consolidated statement of financial position date. Any resultant gains or losses are accounted for in the income statement other than for items presented in other comprehensive income.

(p) Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method. Interest earned whilst holding investment securities is reported in interest income in the income statement.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(q) Fee and commission income

Fees and commissions, other than loan arrangement fees, are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognised based on the, applicable service contracts, usually on a time-proportionate basis. Fees earned on the Bank's fiduciary activities are recognised over the period in which the service is provided. The same principle is applied to custody services that are continuously provided over an extended period of time.

(r) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(s) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8, the Bank has the following business segments: retail banking, business banking and treasury.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management

3.1 Risk management review

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Groups's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

3.2 Credit risk

Credit risk is defined as the risk that the Group's customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Group to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Group, thereby resulting in the value of the assets to fall. As credit risk is the Group's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Bank.

The Group's credit policy provides for the development of a systematic and consistent approach to identifying and managing borrower and counter party risks contained in all retail, business banking and SME assets.

The Head of Credit and his team including collections are responsible for recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the framework set out in the Credit Policy, Product Programs Guidelines, Credit circulars and comply with regulatory norms.

The Group manages, limits and controls concentration of credit risk wherever it is identified – in particular, to individual counterparties and groups, and to industries and countries. The Group has a Product Program Guide that sets limits of exposure and lending criteria. The Bank also has credit limits that set out the lending and borrowing limits to/from other banks.

The Group stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Credit Committee and the Board of Directors.

The exposure to any one borrower, including banks, is further restricted by sub-limits covering on- and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as forward foreign exchange contracts. Actual exposures against limits are monitored on an ongoing basis.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

The Group has in place policies which govern the determination of eligibility of various collaterals including credit protection, to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants. The Group's major collaterals are mortgaged properties, investments, vehicles & other register-able assets.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

3.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements

	Maximum exposure	
	31 December 2014	31 December 2013
	AED'000	AED'000
<i>Credit risk exposures relating to on-balance sheet assets are as follows:</i>		
Due from banks	305,947	543,899
Loans and advances:		
Loans to retail customers	23,091,781	21,035,608
Loans to business banking customers	2,174,694	923,637
Investment securities	3,785,289	2,695,952
Other assets	239,476	195,120
<i>Credit risk exposures relating to off-balance sheet items are as follows:</i>		
Loan commitments and other off balance sheet items	844,612	740,613
	<u>30,441,799</u>	<u>26,134,829</u>

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2014 and 2013 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As can be seen above, the most significant exposures arise from loans and advances to customers (including commitments) and amounts due from banks.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.1 Maximum exposure to credit risk before collateral held or other credit enhancements (continued)

Management is confident in its ability to continue to control and minimise the loss arising from its exposure to credit risk resulting from its loans and advances portfolio, investment securities portfolio and amounts due from banks based on the following:

- 93% (2013: 92%) of the loans and advances are categorised in the top grades of the Bank's internal grading system.
- Mortgage loans, loan against investments and auto loans, which are backed by collateral together, represent a significant portion (2014: 29% 2013: 29 %) of loans and advances.
- 7.2% (2013: 7.2%) of the loans comprise of restructured loans, where the Group has aligned its lending rates to current prevailing market lending rates and extended or modified payment arrangements to manage credit risk.
- The Bank continuously reviews its credit and credit underwriting policies and changes are made based on the Management Information System (MIS) reports and the patterns that emerge from these reports.
- A significant portion of investments securities comprise debt instruments that are issued by government and reputable quasi-government organisation.

3.2.2 Loans and advances to customers and amounts due from banks

Loans and advances to customers and amounts due from banks are summarised as follows:

	31 December 2014		31 December 2013	
	Loans and advances to customers AED'000	Amounts due from banks AED'000	Loans and advances to customers AED'000	Amounts due from banks AED'000
Neither past due nor impaired	24,050,663	305,947	20,631,001	543,899
Past due but not impaired	1,136,277	-	1,184,017	-
Individually impaired	618,762	-	539,840	-
Gross	25,805,702	305,947	22,354,858	543,899
Less: allowance for impairment	(539,227)	-	(395,613)	-
Net	25,266,475	305,947	21,959,245	543,899

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

Neither past due nor impaired

	31 December 2014		31 December 2013	
	Loans and advances to customers AED'000	Amounts due from banks AED'000	Loans and advances to customers AED'000	Amounts due from banks AED'000
Loans and advances				
- Retail loans	21,894,015	-	19,721,433	-
- Business Banking loans	2,156,648	-	909,568	-
Due from banks	-	305,947	-	543,899
Gross	24,050,663	305,947	20,631,001	543,899

Loans and advances

The Group uses the grading of loans into different buckets in assessing the impairment loss in the Group's loan portfolio. The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

Retail banking loans are graded into buckets according to the number of installments past due. All loans that are not in default of interest payment and installment are graded as bucket 0, while loans and advances that are in default of interest payment and installments are graded upwards from bucket 1 onwards, depending on the number of days past due. The Business Banking credit matrix is used to rate Business Banking loans under various characteristics. There are nine categories of performing loans and one category of non-performing loans. These ratings are reviewed at least once a year, or more frequently as required. Loans and advances are classified as delinquent after 90 days of non-payment of interest and installments. The credit policy has set internal lending limits for various industry exposures. The business banking loan portfolio is reviewed on a quarterly basis.

Amounts due from banks

The Group held amounts due from banks of AED 306 million (2013: 544 million) which represents its maximum credit exposure on these assets. The balance due from banks includes AED 73 million (2013: AED 275 million) placements with banks. Remaining balances due from banks and other financial institutions are held with reputable organisations within and outside UAE, where the risk of default is considered low.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

Past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, however considered in a collective assessment. Gross amount of loans and advances by class of customers that were past due but not impaired are as follows:

	31 December 2014			31 December 2013		
	Retail loans AED'000	Business Banking loans AED'000	Total AED'000	Retail loans AED'000	Business Banking loans AED'000	Total AED'000
Past due up to 30 days	691,715	7,402	699,117	689,873	1,428	691,301
Past due 31 - 60 days	268,623	4,088	272,711	270,317		270,317
Past due 61-90 days	163,326	1,123	164,449	221,870	529	222,399
Total	1,123,664	12,613	1,136,277	1,182,060	1,957	1,184,017
Fair value of collateral	255,261	2,324	257,585	332,984	332	333,316

Fair value of collateral of AED 257.6 million (31 December 2013 : AED 333.3 million) shown above are primarily under retail loans and represents fair value of collateral against mortgage loans.

Individually Impaired

The breakdown of the gross amount of individually impaired loans and advances, Islamic financing assets along with the fair value of related collateral held by the bank as security, are as follows:

	31 December 2014			31 December 2013		
	Retail loans AED'000	Business Banking loans AED'000	Total AED'000	Retail loans AED'000	Business Banking loans AED'000	Total AED'000
Individually impaired loans	579,918	38,844	618,762	497,147	42,693	539,840
Fair value of collateral	(220,415)	(9,570)	(229,985)	(246,298)	(9,570)	(255,868)
Net	359,503	29,274	388,777	250,849	33,123	283,972

The total impairment provision for loans and advances is AED 539.2 million (2013: AED 395.6 million) of which AED 436.2 million (2013: AED 329.6 million) represents provision in respect of the individually impaired loans and advances and the remaining AED 103.0 million (2013: AED 66.0 million) represents the portfolio provision to reflect the risk inherent in the Group's loan portfolio. AED 220.4 million fair value of collateral shown above under retail loans represents fair value of collateral against mortgage loans and AED 9.6 million shown under business banking loans represents cash collateral which is not set-off against outstanding impaired loans.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.2 Loans and advances to customers and amounts due from banks (continued)

Restructured loans and advances

Restructuring activities include interest rate adjustments, extended payment arrangements and modification of payments. The majority of restructuring activity is undertaken to improve cash flow and is within the terms and conditions of the Group's product programme guideline. These policies are kept under continuous review. The Group has reviewed the entire portfolio and decided to report only restructured loan with financial difficulties under this note. The table below presents loans restructured during the year 2014 and 2013.

Loans restructured during the year

Product	2014		2013	
	No of Accounts	Loan Amount AED'000	No of Accounts	Loan Amount AED'000
Personal loans to nationals and expatriates	867	500,058	861	530,810
Mortgage loans	13	34,207	59	114,509
Credit cards	995	37,120	857	28,890
Auto loans	198	15,847	143	6,517
RAKfinance business loans	272	113,024	357	128,813
Total	2,345	700,256	2,277	809,539

The table below presents restructured loan portfolio outstanding as at 31 December

Restructured loans

Product	31 December 2014		31 December 2013	
	No of Accounts	Loan Amount AED'000	No of Accounts	Loan Amount AED'000
Personal loans to nationals and expatriates	2,356	1,383,423	1,995	1,025,708
Mortgage loans	75	187,085	154	369,491
Credit cards	3,448	50,798	3,246	42,119
Auto loans	313	20,105	171	8,121
RAKfinance business loans	588	208,240	492	168,862
Total	6,780	1,849,651	6,058	1,614,301

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Investment securities

Investment securities comprise debt securities issued by the Government, organisations which are quasi-governmental and local and foreign reputable organisations.

The table below presents an analysis of debt securities by rating agency designation at 31 December 2014 and 2013, based on Moody's and Fitch ratings or their equivalent.

	2014 AED'000	2013 AED'000
AA to A-	1,058,102	781,681
BBB+ to BBB-	1,798,246	1,231,843
Unrated	910,580	682,428
Total	3,766,928	2,695,952

The unrated securities include bonds/ Sukuks of Dubai Department of Finance amounting to AED 705.7 million (31 December 2013 AED 535.5 million) and Emirates Airlines amounting to AED 204.9 million (31 December 2013 146.8 million). The management is comfortable with the above unrated instruments.

3.2.4 Repossessed collateral

The Group occasionally takes possession of mortgaged property which was held as collateral for loan, as there is no significant possession of collateral during the year no disclosures.

In the case of retail auto loans where the underlying asset is repossessed as a part of recovery process, these are disposed of in an auction by authorised third parties and the bank does not carry any such assets in its books.

3.2.5 Concentration of risks of financial assets with credit risk exposure

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 bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to limit concentrations of exposures to counterparties, geographies and industries. Identified concentration of credit risk is controlled and managed accordingly.

Geographical risk concentration

The following table breaks down the Group's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2014 and 2013.

For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties:

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.5 Concentration of risks of financial assets with credit risk exposure (continued)

On balance sheet items

	UAE AED'000	OECD AED'000	Others AED'000	Total AED'000
31 December 2014				
Due from banks	182,211	114,373	9,363	305,947
Loans and advances				
- Retail loans	22,837,965	89,876	163,940	23,091,781
- Business Banking loans	2,169,015	-	5,679	2,174,694
Investment securities				
- Held-to-maturity	2,609,385	-	1,115,704	3,725,089
- Available-for-sale	60,200	-	-	60,200
Other assets	239,476	-	-	239,476
Total	<u>28,098,252</u>	<u>204,249</u>	<u>1,294,686</u>	<u>29,597,187</u>
31 December 2013	AED'000	AED'000	AED'000	AED'000
Due from banks	373,257	165,230	5,412	543,899
Loans and advances				
- Retail loans	20,852,955	66,476	116,177	21,035,608
- Business Banking loans	919,701	1,139	2,797	923,637
Investment securities				
- Held-to-maturity	1,957,901	-	695,783	2,653,684
- Available-for-sale	42,268	-	-	42,268
Other assets	195,120	-	-	195,120
Total	<u>24,341,202</u>	<u>232,845</u>	<u>820,169</u>	<u>25,394,216</u>

Off balance sheet items

	UAE AED'000	OECD AED'000	Others AED'000	Total AED'000
31 December 2014				
Credit commitments	35,521	-	548	36,069
Guarantees, acceptances and other exposures	799,607	3,085	5,851	808,543
	<u>835,128</u>	<u>3,085</u>	<u>6,399</u>	<u>844,612</u>
31 December 2013				
Credit commitments	77,997	-	374	78,371
Guarantees, acceptances and other exposures	653,579	3,153	5,510	662,242
	<u>731,576</u>	<u>3,153</u>	<u>5,884</u>	<u>740,613</u>

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

**Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)**

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Concentration of credit risk by industry

The following table breaks down the bank's credit exposures on loans and advances, debt securities and off balance sheet items categorised by industry as of 31 December 2014 and 2013.

	On balance sheet items				Off balance sheet Items AED'000	Total AED'000
	Loans and advances AED'000	Investment securities AED'000	Due from banks AED'000	Total funded AED'000		
31 December 2014						
Agriculture, fishing & related activities	-	-	-	-	126	126
Crude oil , gas, mining & quarrying	-	-	-	-	107,607	107,607
Manufacturing	510,706	215,701	-	726,407	35,407	761,814
Electricity & water	4,144	736,577	-	740,721	1,575	742,296
Construction	490,065	185,212	-	675,277	88,412	763,689
Trading	5,374,750	-	-	5,374,750	165,353	5,540,103
Transport, storage & communication	1,131,950	365,594	-	1,497,544	24,889	1,522,433
Financial Institutions	192,006	1,311,012	305,947	1,808,965	95,184	1,904,149
Services	2,711,332	228,322	-	2,939,654	269,868	3,209,522
Government	-	742,871	-	742,871	14,199	757,070
Retail and consumer banking	15,390,749	-	-	15,390,749	41,992	15,432,741
Total exposures	25,805,702	3,785,289	305,947	29,896,938	844,612	30,741,550

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Concentration of credit risk by industry (continued)

	On balance sheet items				Off balance sheet Items AED'000	Total AED'000
	Loans and advances AED'000	Investment securities AED'000	Due from banks AED'000	Total funded AED'000		
31 December 2013						
Agriculture, fishing & related activities	2,645	-	-	2,645	126	2,771
Crude oil, gas, mining & quarrying	26,348	-	-	26,348	58,442	84,790
Manufacturing	280,952	178,981	-	459,933	35,809	495,742
Electricity & water	14,699	619,971	-	634,670	1,418	636,088
Construction	1,530,819	-	-	1,530,819	60,728	1,591,547
Trading	3,644,261	-	-	3,644,261	130,222	3,774,483
Transport, storage & communication	1,098,113	146,883	-	1,244,996	22,571	1,267,567
Financial Institutions	23,865	992,105	543,899	1,559,869	176,397	1,736,266
Services	410,114	128,187	-	538,301	156,530	694,831
Government	-	629,825	-	629,825	14,582	644,407
Retail and consumer banking	15,323,042	-	-	15,323,042	83,788	15,406,830
Total exposures	22,354,858	2,695,952	543,899	25,594,709	740,613	26,335,322

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Individually impaired loans by industry

The breakdown of the gross amount of individually impaired loans and advances by industry are as follows:

	Less than 90 days AED'000	Overdue above 90 Days AED'000	Total AED'000	Specific Provision AED'000
31 December 2014				
Manufacturing	-	2,758	2,758	2,689
Construction	1,323	39,959	41,282	33,913
Trading	276	47,193	47,469	47,469
Transport, storage & communication	-	6,436	6,436	6,436
Financial institution	-	157	157	157
Services	1,242	23,543	24,785	24,562
Retail and consumer banking	15,253	480,622	495,875	321,001
Total impaired loans	<u>18,094</u>	<u>600,668</u>	<u>618,762</u>	<u>436,227</u>

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Individually impaired loans by industry (continued)

	Less than 90 days AED'000	Overdue above 90 Days AED'000	Total AED'000	Specific Provision AED'000
31 December 2013				
Agriculture, fishing & related activities	-	72	72	72
Manufacturing	-	1,379	1,379	1,379
Construction	83	46,558	46,641	38,998
Trading	319	38,346	38,665	34,662
Transport, storage & communication	2	5,093	5,095	5,095
Financial institution	-	2	2	1
Services	75	7,198	7,273	7,273
Retail and consumer banking	5,147	435,133	440,280	241,700
Others	-	433	433	433
Total impaired loans	<u>5,626</u>	<u>534,214</u>	<u>539,840</u>	<u>329,613</u>

3.2.8 Offsetting financial instruments

The Group has not entered in significant master netting arrangement with counterparties which enable them to settle transactions on net basis. In absence of such agreements the financial asset and liabilities are settled on gross basis.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.3 Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Asset and Liability Committee (ALCO) is chaired by the Chief Executive Officer and comprises of the Heads of Finance, Treasury, Risk, Business Banking and Retail Banking. It meets on a regular basis to monitor and manage market risk.

ALCO is responsible for formalising the Group's key financial indicators and ratios, set the thresholds to manage and monitor the market risk and also analyse the sensitivity of the Group's interest rate and maturity mis-matches. ALCO also guides the Group's investment decisions and provides guidance in terms of interest rate and currency movements.

Further the Group does not enter in to derivative trades for speculative purposes. The only exposure to derivatives is in respect of forward exchange contracts which are entered, to meet customer needs or interest rate swaps for hedging purposes. (Note 21).

3.3.1 Price risk

The Group is exposed to price risk as a result of its holdings in debt securities classified as available-for-sale investment securities. The fair values of investments quoted in active markets are based on current bid prices. Senior management meets regularly to discuss the return on investment and concentration across the Group's investment portfolio.

The sensitivity analysis for price risk illustrates how changes in the fair value of securities held by the Group will fluctuate because of changes to market prices whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market. At 31 December 2014, if market prices had increased/decreased by 5%, with all other variables held constant, the fair value reserve in equity would have increased/decreased by AED 3 million (2013: AED 2.1 million).

3.3.2 Interest rate risk

Cash flow interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Group monitors interest rate risk through the use of a detailed gap report and stress tests to analyse the impact of anticipated movements in interest rates.

Financial assets that are not subject to any interest-rate risk mainly comprise investments in equity investments, cash, balances with central banks excluding certificates of deposit and property and equipment and other assets.

The Group uses financial simulation tools to periodically measure and monitor interest-rate sensitivity. The results are analysed and monitored by the Asset and Liability Committee (ALCO).

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

At 31 December 2014

Assets

	Less than 3 months	3 months to 1 year	1 - 3 years	3 - 5 years	Over 5 years	Non -interest bearing	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Cash and balances with the UAE Central Bank	-	1,000,000	-	-	-	3,217,469	4,217,469
Due from other banks	73,460	-	-	-	-	232,487	305,947
Loans and advances	8,281,631	4,024,639	7,882,344	1,047,607	4,030,254	-	25,266,475
Investment securities	-	147,527	644,204	359,779	2,615,418	18,361	3,785,289
Property and equipment and other assets	-	-	-	-	-	1,254,977	1,254,977
Total	8,355,091	5,172,166	8,526,548	1,407,386	6,645,672	4,723,294	34,830,157

Liabilities and shareholders' equity

Due to other banks	744,067	-	-	-	-	17,740	761,807
Due to customers	14,724,181	3,238,346	315,000	-	-	6,373,881	24,651,408
Debt securities issued ¹	1,667,629	-	-	-	-	-	1,667,629
Other liabilities and provision for employees' end of service benefits	-	-	-	-	-	618,192	618,192
Shareholders' equity	-	-	-	-	-	7,131,121	7,131,121
Total	17,135,877	3,238,346	315,000	-	-	14,140,934	34,830,157

Interest rate sensitivity gap

(8,780,786)	1,933,820	8,211,548	1,407,386	6,645,672
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¹The Group has converted the fixed rate debt securities issued into a floating rate using an interest rate swap.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

At 31 December 2013

Assets	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year to 3 years AED'000	Over 3 years to 5 years AED'000	Over 5 years	Non- interest bearing AED'000	Total AED'000
Cash and balances with the UAE Central Bank	-	750,000	-	-	-	2,872,262	3,622,262
Due from other banks	275,475	-	-	-	-	268,424	543,899
Loans and advances	7,320,652	2,722,773	6,166,290	953,004	4,796,526	-	21,959,245
Investment securities	50,000	-	418,106	531,603	1,696,243	-	2,695,952
Property and equipment and other assets	-	-	-	-	-	1,305,411	1,305,411
Total	7,646,127	3,472,773	6,584,396	1,484,607	6,492,769	4,446,097	30,126,769
Liabilities and shareholders' equity							
Due to other banks	-	-	-	-	-	3,357	3,357
Due to customers	13,869,433	4,199,338	-	-	-	5,000,376	23,069,147
Other liabilities and provision for employees' end of service benefits	-	-	-	-	-	538,195	538,195
Shareholders' equity	13,869,433	4,199,338	-	-	-	6,516,070	6,516,070
Total	13,869,433	4,199,338	-	-	-	12,057,998	30,126,769
Interest rate sensitivity gap	(6,223,306)	(726,565)	6,584,396	1,484,607	6,492,769		

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

	2014 AED'000	2013 AED'000
Fluctuation in interest rates by 25 bps	<u>18,309</u>	<u>16,927</u>

The interest rate sensitivities set out above are worst case scenarios and employ simplified calculations. They are based on the gap between AED 13,527 million (2013: AED 11,119 million) of interest bearing assets with maturities within one year and AED 20,374 million (2013: AED 18,069 million) of interest bearing liabilities with maturities within one year. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3.3.3 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. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Group does maintain a US dollar open position within limits approved by the Bank's ALCO.

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

At 31 December 2014, the Bank had the following net exposures denominated in foreign currencies:

On balance sheet items

At 31 December 2014	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Assets				
Cash and balances with the UAE Central Bank	3,858,092	359,377	-	4,217,469
Due from other banks	109,332	158,932	37,683	305,947
Loans and advances	24,394,400	860,469	11,606	25,266,475
Investment securities	18,361	3,766,928	-	3,785,289
Other assets	183,981	55,492	3	239,476
Total assets	<u>28,564,166</u>	<u>5,201,198</u>	<u>49,292</u>	<u>33,814,656</u>
Liabilities				
Due to other banks	751,946	-	9,861	761,807
Due to customers	19,852,916	4,225,968	572,524	24,651,408
Debt securities issued	-	1,667,629	-	1,667,629
Other liabilities	540,039	4,337	819	545,195
Total liabilities	<u>21,144,901</u>	<u>5,897,934</u>	<u>583,204</u>	<u>27,626,039</u>
Net position of financial instruments	<u>7,419,265</u>	<u>(696,736)</u>	<u>(533,912)</u>	<u>6,188,617</u>
At 31 December 2013	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Total assets	<u>24,711,941</u>	<u>4,246,793</u>	<u>57,744</u>	<u>29,016,478</u>
Total liabilities	<u>21,304,049</u>	<u>1,874,177</u>	<u>367,023</u>	<u>23,545,249</u>
Net position of financial instruments	<u>3,407,892</u>	<u>2,372,616</u>	<u>(309,279)</u>	<u>5,471,229</u>

The Group has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the Bank has the largest net open position at 31 December 2014 and 2013. All currency positions are within limits laid down by ALCO.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

Off-balance sheet items

At 31 December 2014	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Credit commitments	36,069	-	-	36,069
Guarantees, acceptances, letter of credit and other exposures	539,209	220,584	48,750	808,543
Total	575,278	220,584	48,750	844,612

At 31 December 2013

Credit commitments	78,371	-	-	78,371
Guarantees, letter of credit, acceptances and other exposures	463,090	152,504	46,648	662,242
	<u>541,461</u>	<u>152,504</u>	<u>46,648</u>	<u>740,613</u>

Foreign exchange contracts

At 31 December 2014	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Foreign exchange contracts	905	428,159	551,051	980,115

At 31 December 2013

Foreign exchange contracts	-	166,057	315,233	481,290
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3.4 Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for customer lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Liquidity risk management process

The Group manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the Group's internal guidelines mandated by ALCO. Based on the directives of the ALCO, the Treasury manages the liquidity of the Bank.

On the funding side, the Group has a large proportion of its funds in the form of own funds which reduces the requirement for external funds. The Group relies on deposits from its relationship based retail and business banking customers as its primary source of funding and only on a short term basis relies on interbank borrowings to fund its assets. The Group's debt securities typically are issued with maturities of greater than three years. Deposits from customers generally have shorter maturities and a large portion of them are repayable on demand as is endemic to these markets. The short term nature of these deposits increases the Group's liquidity risk and the bank manages this risk through maintaining competitive pricing and constant monitoring of market trends. Also, a most of the deposit customers of the Group are relationship based and based on past trends these deposits that they maintain are sticky in nature, thus reducing the liquidity risk to a large extent. The Group not rely on large ticket deposits and its depositor profile is very diverse leading to a more stable deposit funding. The Group raised USD 500 million under Euro Medium Term Notes under USD 1 billion EMTN programme launched in June 2014. This helped the Group achieve long term funding. The Group may raise the balance amount under the programme should the need arise.

On the deployment side, the Group maintains a portfolio of highly liquid assets largely made up of balances with the UAE Central Bank, certificates of deposits issued by the Central Bank, inter-bank facilities and investment securities including investments in local government bonds which can be repored to meet short term liquidity mismatches and be offloaded to meet longer term mismatches. The Central Bank of the U.A.E. has prescribed reserve requirements on deposits ranging between 1% and 14% on time and demand deposits. As a contingency funding plan, the Group evaluates and keeps ready debt financing plans which can be quickly executed if required.

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining years from the reporting date to the contractual cash flow date. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

The Central Bank of the U.A.E. also imposes mandatory 1:1 loans to stable resources ratio (LSRR) whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. ALCO monitors loans to stable resources ratios on a daily basis. The Group on a daily basis also monitors the liquid assets to total assets ratio and the Liquid Asset Ratio and has set up internal Management Action Triggers to take suitable corrective actions once the internal thresholds have been reached.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.1 Liquidity risk management process (continued)

At 31 December 2014, 21.7 % (31 December 2013 – 22.7 %) of the Group's total assets was in liquid assets. The LSRR as at 31 December, 2014 stood at 88.2 % (2013: 88.1%) which is way significantly lower than maximum requirement of 100%. Similarly the Liquid Assets Ratio of the Group stood at 20.0 % (2013: 19.8%) as at 31 December, 2014 which also reflecting a healthy liquidity position.

	Up to 3 months	3 – 12 months	1 – 3 years	3 to 5 years	Over 5 years	Total
At 31 December 2014	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets						
Cash and balances with the UAE Central Bank	3,217,469	1,000,000	-	-	-	4,217,469
Due from other banks	305,947	-	-	-	-	305,947
Loans and advances	4,458,867	4,179,904	8,528,915	1,474,527	6,624,262	25,266,475
Investment securities	60,206	147,533	644,229	359,804	2,573,517	3,785,289
Property and equipment, and other assets	257,925	46,260	9,677	3,401	937,714	1,254,977
Total	8,300,414	5,373,697	9,182,821	1,837,732	10,135,493	34,830,157
Liabilities and shareholders' equity						
Due to other banks	761,807	-	-	-	-	761,807
Due to customers	21,098,062	3,238,346	315,000	-	-	24,651,408
Debts security in issue	-	-	-	1,667,629	-	1,667,629
Other liabilities and provision for employees' end of service benefits	544,034	1,161	-	-	72,997	618,192
Shareholders' equity	-	-	-	-	7,131,121	7,131,121
Total	22,403,903	3,239,507	315,000	1,667,629	7,204,118	34,830,157
Net liquidity gap	(14,103,489)	2,134,190	8,867,821	170,103	2,931,375	-
At 31 December 2013						
Total assets	7,817,207	3,703,457	7,127,535	1,860,526	9,618,044	30,126,769
Total liabilities and equity	19,425,646	4,119,603	-	-	6,581,520	30,126,769
Net liquidity gap	(11,608,439)	(416,146)	7,127,535	1,860,526	3,036,524	-

The group has a large proportion of its liabilities as demand deposits which do not have a fixed maturity. Although behaviourally these deposits are stable, these have been grouped under up to 3 months category in accordance with the UAE Central Bank guideline.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.2 Derivative cash flows

The Group's derivatives that will be settled on a gross basis comprise foreign exchange contracts.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows related to foreign exchange contract. Cash flows from interest rate swap not included in below note.

Since the interest swap does not have any significant impact on liquidity they have not been considered in the below table:

	Up to 1 month AED'000	1-3 months AED'000	3-12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2014						
Foreign exchange contracts						
- Outflow	892,663	87,452	-	-	-	980,115
- Inflow	892,663	87,452	-	-	-	980,115

At 31 December 2013						
Foreign exchange contracts:						
- Outflow	471,224	-	-	-	-	471,224
- Inflow	481,291	-	-	-	-	481,291

3.4.3 Off-balance sheet items

	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2014				
Credit commitments	35,096	973	-	36,069
Guarantees, acceptances and other financial facilities	682,951	125,592	-	808,543
Total	718,047	126,565	-	844,612
At 31 December 2013				
Credit commitments	78,371	-	-	78,371
Guarantees, acceptances and other financial facilities	662,208	34	-	662,242
Total	740,579	34	-	740,613

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.5 Fair values of financial assets and liabilities

Fair value is 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. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December 2014, the carrying value of the Bank's financial assets and liabilities measured at amortised cost approximate their fair values, except for the below mentioned financial asset:

	Fair value		Carrying value	
	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
Financial assets				
Investment securities	3,916,880	2,631,967	3,785,289	2,695,952

Investment securities

Investment securities comprise mainly of interest-bearing debt instruments that are held-to-maturity or classified as available-for-sale financial assets and measured at fair value. The fair value of the debt instruments is based on quoted market prices. Investment in equity shares is based on quoted prices.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.6 Financial instruments

Categories of financial instruments

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

	Loans and receivables	Available for sale	Hedging derivatives	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
December 31, 2014					
Assets					
Investment securities	3,725,089	60,200	-	-	3,785,289
Derivative financial instruments	-	-	12,789	361	13,150
Cash and balances with the UAE					
central Bank	4,217,469	-	-	-	4,217,469
Due from other Banks	305,947	-	-	-	305,947
Loans and advances	25,266,475	-	-	-	25,266,475
Other assets	239,476	-	-	-	239,476
Total financial assets	33,754,456	60,200	12,789	361	33,827,806
	Financial liabilities at amortised cost				
	AED'000				
Liabilities					
Due to banks	761,807				
Due to customer	26,451,408				
Debt securities issued	1,667,629				
Other liabilities	41,728				
Total financial liabilities	28,922,572				
	Loans and receivables	Available For sale	Hedging derivatives	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
December 31, 2013					
Assets					
Investment securities	2,653,684	42,268	-	-	2,695,952
Derivative financial instruments	-	-	-	375	375
Cash and balances with the UAE					
central Bank	3,622,262	-	-	-	3,622,262
Due from other Banks	543,899	-	-	-	543,899
Loans and advances	21,959,245	-	-	-	21,959,245
Other assets	195,120	-	-	-	195,120
Total financial assets	28,974,210	42,268	-	375	29,016,853
	Financial liabilities at amortised cost				
	AED'000				
Liabilities					
Due to banks	3,357				
Due to customer	23,069,147				
Other liabilities	48,844				
Total financial liabilities	23,121,348				

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.7 Fair value hierarchy

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices – Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs – Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as forwards foreign exchange contracts which are valued using market standard pricing techniques.

Valuation techniques using significant unobservable inputs – Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from a transaction in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The table below analyses recurring fair value measurements for assets and liabilities.

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

3 Financial risk management (continued)

3.7 Fair value hierarchy (continued)

The assets measured at fair value as per the hierarchy are disclosed in the table below:

31 December 2014	Quoted market prices Level 1 AED '000	Observable inputs Level 2 AED '000	Significant unobservable inputs Level 3 AED '000	Total AED'000
Asset at fair value				
Available for sale financial assets				
- Investment securities – debt	41,839	-	-	41,839
- Investment securities – Equity	18,361	-	-	18,361
- Foreign exchange contracts	-	361	-	361
Derivative financial instruments	-	12,789	-	12,789
Asset at amortised cost				
Investment securities	3,856,680	-	-	3,856,680
	<u>3,916,880</u>	<u>13,150</u>	<u>-</u>	<u>3,930,030</u>
 31 December 2013				
Asset at fair value				
Available for sale financial assets				
- Investment securities – debt	42,268	-	-	42,268
- Foreign exchange contracts	-	375	-	375
Derivative financial instruments	-	-	-	-
Asset at amortised cost				
Investment securities	2,589,699	-	-	2,589,699
	<u>2,631,967</u>	<u>375</u>	<u>-</u>	<u>2,632,342</u>

All the investments are quoted except foreign exchange contracts and derivative financial instruments. There are no transfers between levels during the period hence no Level 3 reconciliation is presented.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.8 Capital Management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the Central Bank of United Arab Emirates;
- to safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a regular basis as required under Basel II standards.

The Bank's capital management is driven by short- and long-term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Bank seeks to optimise returns on capital, and its objective has always been to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

3.8.1 Capital structure and capital adequacy as per Basel II requirement as at 31 December 2014

The Bank is required to report capital resources and risk-weighted assets under the Basel II Pillar 1 framework, as shown in the following table. The Bank has adopted standardised approach for calculation of credit risk and market risk capital charge. On operational risk, alternative standardized approach is followed for capital charge calculation under Pillar 1.

	2014 AED'000	2013 AED'000
Tier 1 capital		
Ordinary share capital	1,676,245	1,676,245
Share premium	110,350	110,350
Statutory and other reserves	3,275,608	2,877,477
Retained earnings	614,316	421,180
Total	<u>5,676,519</u>	<u>5,085,252</u>
Tier 2 capital		
Total regulatory capital	<u>5,676,519</u>	<u>5,085,252</u>
Risk weighted assets		
Credit risk	22,206,238	18,720,220
Market risk	29,590	4,618
Operational risk	1,498,386	849,176
Total risk weighted assets	<u>23,734,214</u>	<u>19,574,014</u>
Capital adequacy ratio on regulatory capital	23.92%	25.98%
Capital adequacy ratio on Tier 1 capital	23.92%	25.98%

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

3 Financial risk management (continued)

3.8 Capital Management (continued)

3.8.1 Capital structure and capital adequacy as per Basel II requirement as at 31 December (continued)

The above ratios are computed without considering the current year profits and proposed cash dividends. On approval of the Consolidated Financial statements by Central Bank of UAE and thereafter by the shareholders, the capital position and risk assets ratio will be as follows :

	2014 AED'000	2013 AED'000
Total Tier 1 capital	6,292,998	5,677,947
Total Tier 2 capital		
Total capital base	<u>6,292,998</u>	<u>5,677,947</u>
Risk asset ratio on total capital base (%)	<u>26.51%</u>	<u>29.01%</u>
Risk asset ratio on tier 1 capital base (%)	<u>26.51%</u>	<u>29.01%</u>

4 Critical accounting estimates and judgements in applying accounting policies

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting policies and management judgement for certain items are especially critical for the Group's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The Group reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management takes into account the historical loss experience in estimating future cash flows in assessing the loan portfolio for impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A +/-5% change in the provision would increase/decrease the profit by AED 27 million (2013: AED 19.8 million).

(b) 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 judgement. In making this judgement, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to hold these investments to maturity other than in specific circumstances – for example, selling an insignificant amount close to maturity or for exceptional credit related reasons – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

5 Cash and balances with the UAE Central Bank

	2014 AED'000	2013 AED'000
Cash in hand (Note 30)	696,244	568,206
Balances with the UAE Central Bank	-	198,242
Statutory deposit with the UAE Central Bank	2,521,225	2,105,814
Certificates of deposit with the UAE Central Bank	1,000,000	750,000
	<u>4,217,469</u>	<u>3,622,262</u>

Statutory deposits maintained with the UAE Central Bank represent deposits at stipulated percentages of the Bank's demand, savings, time and other deposits. These are only available for day-to-day operations under certain specified conditions and cannot be withdrawn without the Central Bank's prior approval.

Cash in hand, balances and statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry an interest rate of 0.40 % (2013: 0.45%) per annum.

6 Due from other banks

	2014 AED'000	2013 AED'000
Placements with other banks	73,460	275,475
Demand deposits	124,036	170,942
Clearing account balances	108,451	97,482
	<u>305,947</u>	<u>543,899</u>

Placements with other banks carry an interest rate of 0.20 % (2013: 0.08%) per annum.

The geographical concentration is as follows

	2014 AED'000	2013 AED'000
Banks in the UAE	182,211	373,257
Banks outside the UAE	123,736	170,642
	<u>305,947</u>	<u>543,899</u>

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

7 Loans and advances, net

		2014 AED'000	2013 AED'000
<i>7(a) Loans and advances</i>			
Retail loans		23,597,597	21,400,640
Business Banking loans		2,208,105	954,218
Total loans and advances	7 (b)	25,805,702	22,354,858
Provision for impairment	7 (c)	(539,227)	(395,613)
Net loans and advances		25,266,475	21,959,245

		2014 AED'000	2013 AED'000
<i>7(b) Analysis of loans and advances</i>			
Personal loans to nationals and expatriates		5,329,923	6,441,308
Mortgage loans		3,769,208	3,669,002
Credit cards		2,895,428	2,864,215
Auto loans		1,957,495	1,685,885
RAKfinance business loans		5,116,989	4,641,399
Business banking loans		2,208,105	954,218
Other retail loans		1,125,878	921,137
Islamic financing assets (note 8)		3,402,676	1,177,694
Total loans and advances		25,805,702	22,354,858

7(c) Provision for impairment

	Retail loans AED'000	Business Banking loans AED'000	Total AED'000
31 December 2014			
Balance brought forward	365,032	30,581	395,613
Impairment charge/ (release) (Note 7(d))	642,404	3,162	645,566
Written off during the year	(501,620)	(332)	(501,952)
Balance carried forward	505,816	33,411	539,227
31 December 2013			
Balance brought forward	292,203	31,907	324,110
Impairment charge/ (release) (Note 7(d))	393,145	(1,050)	392,095
Written off during the year	(320,316)	(276)	(320,592)
Balance carried forward	365,032	30,581	395,613

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

7 Loans and advances (continued)

7(d) Impairment charge/ (release) on loans and advances net of write (back)/off

	Retail loans AED'000	Business Banking loans AED'000	Total AED'000
31 December 2014			
Impairment charge/ (release)	642,404	3,162	645,566
Net recovery during the year	<u>(50,235)</u>	<u>-</u>	<u>(50,235)</u>
	<u>592,169</u>	<u>3,162</u>	<u>595,331</u>
31 December 2013			
Impairment charge / (release)	393,145	(1,050)	392,095
Net recovery during the year	<u>(51,472)</u>	<u>-</u>	<u>(51,472)</u>
	<u>341,673</u>	<u>(1,050)</u>	<u>340,623</u>

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

7(e) Impaired loans and advances provision coverage

	2014 AED'000	2013 AED'000
Aggregate impaired loans (as reported to the UAE Central Bank)	<u>618,762</u>	<u>539,840</u>
Provision held	<u>539,227</u>	<u>395,613</u>
Coverage ratio	<u>87.15%</u>	<u>73.28%</u>

The ratio of provision held to aggregate impaired loans ('coverage ratio) does not take into account collateral available, including cash, property and other realisable assets. For computation of above ratio, the bank has considered total impairment provision including the portfolio provision for risk inherent in the bank's portfolio (Note 3.2.2).

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

8 Islamic financing assets

	2014 AED'000	2013 AED'000
Analysis of Islamic financing assets		
Islamic Salam personal finance	1,606,126	730,088
Islamic Auto Murabaha	876,169	370,079
Islamic business finance	649,578	34,921
Islamic Ijara property finance	128,176	-
Islamic credit cards	142,381	42,589
Islamic finance - Others	246	17
	<hr/>	<hr/>
Total Islamic financing assets	3,402,676	1,177,694
Provision for impairment	(28,411)	(5,312)
	<hr/>	<hr/>
	3,374,265	1,172,382

9 Investment securities

9(a) Total investment securities

	2014 AED'000	2013 AED'000
Available-for-sale securities		
Quoted equity securities	18,361	-
Quoted debt securities	41,839	42,268
	<hr/>	<hr/>
	60,200	42,268
Held for trading		
Quoted equity securities	-	-
Held-to-maturity securities		
Quoted debt securities	3,725,089	2,653,684
Total	<hr/>	<hr/>
	3,785,289	2,695,952

The Group's investment portfolio is denominated in US dollars or UAE dirhams.

The composition of the investment portfolio by category as follows

	31 December 2014 AED'000	31 December 2013 AED'000
Federal and local Government – UAE	705,654	535,545
Government related entity – UAE	1,131,698	835,508
Government – GCC	37,217	94,280
Government related entity – GCC	86,961	-
Banks and financial institutions – UAE	647,020	629,115
Banks and financial institutions – GCC	58,795	58,873
Banks and financial institutions – Non UAE/GCC	605,198	304,117
Public limited companies – UAE	185,213	-
Public limited companies – Non UAE	327,533	238,514
	<hr/>	<hr/>
	3,785,289	2,695,952

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

9 Investment securities (continued)

9(b) Movement in investment securities

	Available - for-sale securities AED'000	Held for trading AED'000	Held – to – maturity securities AED'000	Total AED'000
At 1 January 2013	42,688	-	1,544,190	1,586,878
Purchases	106,483	-	1,829,092	1,935,575
Disposals */ Maturity	(106,483)	-	(706,199)	(812,682)
Net changes in fair value	(420)	-	-	(420)
Amortisation of discount/(premium)	-	-	(13,399)	(13,399)
At 31 December 2013	42,268	-	2,653,684	2,695,952
Purchases	50,676	9,359	1,193,920	1,253,955
Disposal* /Maturity	(31,210)	(9,359)	(106,837)	(147,406)
Net changes in fair value	(1,428)	-	-	(1,428)
Amortisation of discount/(premium)	(106)	-	(15,678)	(15,784)
At 31 December 2014	60,200	-	3,725,089	3,785,289

* In November 2014 based on feedback from the regulator, the Group exited one held to maturity bond with carrying value of AED 56.8 million held in the book of RAK Islamic Finance Company. In April 2013 Management undertook a review of the held to maturity bonds portfolio and a decision was taken to exit two bonds with carrying value of AED 165.2 million for credit reasons. All other reductions are due to redemptions at normal maturity date.

9(c) Income from investment securities

	2014 AED'000	2013 AED'000
Release of fair value to income statement on maturity/ disposal of available-for-sale investment securities	3,636	26,576
Release of fair value to income statement on maturity/ disposal of held for trading investment securities	1,334	-
Profit / (loss) on sale of held to maturity securities	(709)	8,410
Dividend and other income	2,174	6,322
	<u>6,435</u>	<u>41,308</u>

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

10 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					
1 January 2013	519,473	105,228	672,990	121,540	1,419,231
Additions	38,429	804	19,251	61,859	120,343
Transfers	51,485	15,216	74,716	(141,417)	-
Disposals/write off	(225)	(1,870)	(2,875)	-	(4,970)
31 December 2013	609,162	119,378	764,082	41,982	1,534,604
Additions	-	-	11,919	33,192	45,111
Transfers	39,778	5,204	19,448	(64,430)	-
Disposals/write off	(5,408)	(626)	(4,836)	-	(10,870)
31 December 2014	643,532	123,956	790,613	10,744	1,568,845
Accumulated depreciation					
1 January 2013	48,074	59,425	275,959	-	383,458
Charge for the year	18,342	15,046	93,520	-	126,908
Disposals/write off	(161)	(1,869)	(2,605)	-	(4,635)
31 December 2013	66,255	72,602	366,874	-	505,731
Charge for the year	20,954	15,261	93,785	-	130,000
Disposals/write off	(533)	(424)	(3,643)	-	(4,600)
31 December 2014	86,676	87,439	457,016	-	631,131
Net book amount					
31 December 2014	556,856	36,517	333,597	10,744	937,714
31 December 2013	542,907	46,776	397,208	41,982	1,028,873

Other fixed assets include computer equipment, furniture and fixtures, office equipment and motor vehicles. The balance of capital work in progress mainly comprises of the costs pertaining to various system enhancements and set up costs for branches.

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

11 Other assets

	2014 AED'000	2013 AED'000
Interest receivable	182,985	175,973
Profit receivable on Islamic financing assets	36,175	11,941
Prepayments and deposits	59,252	54,229
Others	38,851	34,395
	<u>317,263</u>	<u>276,538</u>

12 Due to other banks

	2014 AED'000	2013 AED'000
Term deposits	744,067	-
Current account balance with the UAE Central Bank	16,946	-
Demand deposits	794	3,357
	<u>761,807</u>	<u>3,357</u>

13 Due to customers

(a) The analysis of customers' deposits is as follows:

	2014 AED'000	2013 AED'000
Time deposits	5,459,454	7,104,006
Current accounts	11,622,189	9,573,066
Savings deposits	3,712,889	3,416,942
Call deposits	1,265,324	1,010,673
Islamic customer deposits (As per Note 14)	2,591,552	1,964,460
	<u>24,651,408</u>	<u>23,069,147</u>

Time deposits include AED 296 million (2013: AED 255 million) held by the bank as cash collateral for loans and advances granted to customers.

(b) Analysis by industry sector:

	2014 AED'000	2013 AED'000
Government	1,975,209	1,659,325
Public sector	495,798	914,162
Commercial private sector	12,755,889	11,956,010
Personal	9,366,587	8,424,746
Non-banking financial institutions	57,925	114,904
	<u>24,651,408</u>	<u>23,069,147</u>

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

14 Islamic customer deposits

The analysis of customers' deposits is as follows:

	2014 AED'000	2013 AED'000
Wakala investment deposits	1,534,249	1,017,385
Mudaraba term investment deposits	76,625	55,673
Qard-E-Hasan -current accounts	338,295	145,001
Mudaraba -current accounts	485,852	618,427
Mudaraba -savings deposits	153,499	125,376
Mudaraba-call deposits	3,032	2,598
	<u>2,591,552</u>	<u>1,964,460</u>

15 Other liabilities

	2014 AED'000	2013 AED'000
Interest payable	26,099	39,738
Profit distributable in Islamic customer deposits	15,629	9,106
Accrued expenses	212,080	155,364
Managers cheques issued	148,036	150,123
Others	143,351	118,414
	<u>545,195</u>	<u>472,745</u>

16 Provision for employees' end of service benefits

	2014 AED'000	2013 AED'000
At 1 January	65,450	61,442
Charge for the year (Note 26)	17,968	13,776
Payment during the year	(10,421)	(9,768)
At 31 December	<u>72,997</u>	<u>65,450</u>

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2014, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 4.27% (2013: 4.48 %). Under this method an assessment has been made of an employee's expected service life with the Group and the expected basic salary at the date of leaving the service. Management has assumed average annual increment/promotion costs of 3.5 % (2013: 3%).

17 Share capital

The authorised, issued and fully paid share capital comprises 1,676.25 million shares of AED 1 each (2013: 1,676.25 million shares of AED 1 each).

At the meeting of the shareholders held on 24 March 2014, the shareholders of the Bank approved a cash dividend of 50% of issued and paid up capital amounting to AED 838.12 million (2012: AED 609.54 million). These dividends were paid out during the second quarter of 2014.

18 Share premium

Share premium represents amounts received from shareholders in excess of the nominal value of the shares allotted to them. In accordance with the Articles of Association of the Bank, share premium is not available for distribution.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

19 Other reserves

	Legal reserve AED'000	Voluntary reserve AED'000	General banking risk reserve AED'000	Credit risk reserve AED'000	Regulatory credit risk reserve AED'000	Fair value reserve AED'000	Total AED'000
At 1 January 2013	666,122	304,773	700,000	950,000	255,000	2,002	2,877,897
Changes during the year	143,082	30,477	100,000	100,000	26,000	(420)	399,139
At 31 December 2013	809,204	335,250	800,000	1,050,000	281,000	1,582	3,277,036
Changes during the year	30,386	1,467	100,000	100,000	53,000	(1,428)	283,425
At 31 December 2014	839,590	336,717	900,000	1,150,000	334,000	154	3,560,461

In accordance with the UAE Federal Law No (8) of 1984 as amended, and the UAE Union Law No. 10 of 1980, as amended, 10% of the net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the issued share capital. This reserve is not available for distribution.

In accordance with the Articles of Association of the bank, 10% of the net profit for the year is transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. This reserve is available for distribution.

The Bank maintains a general banking risk reserve to address the risks inherent in the bank's operating environment. Contributions to this reserve are made at the discretion of the Directors. This reserve is available for distribution.

The Bank has also established a special reserve for credit risk. Contributions to this reserve are voluntary and made at the discretion of the Directors. This reserve is available for distribution.

The Bank has created a non-distributable special reserve titled as 'Regulatory Credit risk reserve' and this reserve is maintained at least at a level of 1.5% of the credit risk weighted assets at the end of each financial year, as instructed by the Central Bank of UAE.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

20 Contingencies and commitments

	2014 AED'000	2013 AED'000
Irrevocable commitments to extend credit	36,069	78,371
Guarantees	678,812	570,353
Letters of credit	78,868	62,951
Acceptances	50,863	28,938
Capital commitments	10,182	11,937
	<u>854,794</u>	<u>752,550</u>

Letters of credit and acceptances are written undertakings by the Group on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit and acceptances are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Guarantees commit the Group to make payment on behalf of customer's contingent upon the production of documents or failure of the customer to perform under the terms of the contract. Guarantees include AED 100 million guarantee given by the Bank for its subsidiary RAK Islamic Finance Company.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. Commitments to extend credit amounting to AED 7,768 million (31 December 2013 AED 6,571 million) are revocable at the option of the Group and not included in the above table.

21 Derivative financial instruments

The Group enters into various types of derivative transactions that are affected by variables in the underlying instruments.

A derivative is a financial instrument or other contract which has the following characteristics:

- (a) Its value changes in response to the change in a specified interest rate, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract sometimes called the 'underlying');
- (b) It is settled at a future date.

Derivatives held or issued for hedging purposes

The Group uses derivative financial instruments for hedging purposes as part of its asset and liability management activities in order to reduce its own exposure to fluctuations in exchange and interest-rates. The Bank uses foreign-exchange contracts and interest-rate swaps to hedge exchange rate and interest-rate risks. In all such cases, the hedging relationship and objectives, including details of the hedged item and hedging instrument, are formally documented and the transactions are accounted for based on the type of hedge.

Foreign exchange contracts comprise commitments to purchase foreign and domestic currencies on behalf of customers and in respect of the Bank's undelivered spot transactions.

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

**Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)**

21 Derivative financial instruments (continued)

The Group had the following currency exchange transactions outstanding.

	Contract amount AED'000	Fair value AED'000
31 December 2014	<u>980,115</u>	<u>361</u>
31 December 2013	<u>481,291</u>	<u>375</u>

The fair values of outstanding foreign exchange contracts are recorded in in other assets if positive, otherwise in other liabilities.

Outstanding interest rate swap transactions at 31 December 2014 and 31 December 2013 are as follows

	Contract amount AED'000	Fair value AED'000
31 December 2014	<u>1,674,888</u>	<u>12,789</u>
31 December 2013	<u>-</u>	<u>-</u>

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

22 Interest income and expense

	2014 AED'000	2013 AED'000
Interest income		
Personal loans to nationals and expatriates	477,088	669,431
Mortgage loans	203,473	219,706
Credit cards	639,703	613,028
Auto loans	141,042	121,708
RAKFinance business loans	968,897	849,411
Business banking loans	147,634	64,718
Other retail banking loans	44,728	26,204
Investment securities	157,068	107,058
Deposits with the UAE Central Bank	4,576	2,981
Other banks	1,110	3,235
	<u>2,785,319</u>	<u>2,677,480</u>
Interest expense		
Due to customers	189,235	246,703
Debt securities issued	16,450	-
Borrowings from other banks	1,431	802
	<u>207,116</u>	<u>247,505</u>

23 Income from Islamic financing and distribution to depositors

	2014 AED'000	2013 AED'000
Islamic Salam personal finance	100,742	33,623
Islamic Auto Murabaha	47,737	11,358
Islamic business finance	58,229	658
Islamic investments	1,333	1,477
Islamic property finance	1,249	-
	<u>209,290</u>	<u>47,116</u>
Distribution of profit on Islamic term investment deposits	24,624	8,421
Distribution of profit on Islamic demand deposits	5,663	3,163
	<u>30,287</u>	<u>11,584</u>

24 Net fees and commission income

	2014 AED'000	2013 AED'000
Personal loans to nationals and expatriates	30,420	25,569
Mortgage loans	33,042	29,703
Credit cards	209,673	176,159
Auto loans	40,035	30,981
RAKFinance business loans	72,787	58,216
Business banking loans	50,809	39,540
Fiduciary income	82,797	75,035
Bancassurance	59,591	52,454
Others retail banking	73,791	41,206
	<u>652,945</u>	<u>528,863</u>

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

25 Operating expenses

	2014 AED'000	2013 AED'000
Staff costs (Note 26)	612,814	597,280
Occupancy costs	93,119	90,567
Marketing expenses	35,500	32,514
Depreciation (Note 10)	130,000	126,908
Communication costs	49,209	49,520
Legal and consultancy fees	50,512	53,376
Computer expenses	75,881	65,859
Outsourced staff costs	378,068	295,578
Others	80,116	67,284
	<u>1,505,219</u>	<u>1,378,886</u>

26 Staff costs

	2014 AED'000	2013 AED'000
Salaries and allowances	557,162	554,663
Pension	11,594	10,584
End of service benefits (Note 16)	17,968	13,776
Others	26,090	18,257
	<u>612,814</u>	<u>597,280</u>

27 Earnings per share

The basic earnings per share are calculated by dividing the net profit attributable to the shareholders of the Bank 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 has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

	2014	2013
Net profit for the year in AED	<u>1,454,602,055</u>	<u>1,430,818,246</u>
Weighted average number of shares in issue	<u>1,676,245,428</u>	<u>1,676,245,428</u>
Basic earnings per share in AED	<u>0.87</u>	<u>0.85</u>

There were no potentially dilutive shares as at 31 December 2014 and 2013.

28 Dividends

At the meeting held on 26 January 2015, the Board of Directors proposed a cash dividend of 50% amounting to AED 838.12 million of the issued and paid up capital in respect of the year ended 31 December 2014 (2013: 50% cash dividend amounting to AED 838.12 million).

Dividends are not accounted for until they have been approved at the Annual General Meeting and, accordingly, the proposed dividend will be accounted for as an appropriation of retained earnings of the year ended 31 December 2014 after it has been approved by the shareholders.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

29 Related party transactions and balances

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

	2014 AED'000	2013 AED'000
Transactions during the year		
Interest/profit income	835	955
Interest/profit expense	8,631	11,201
Commission income	1,222	742
Directors' remuneration	8,286	5,216
Remuneration payable to key management personnel	<u>37,221</u>	<u>39,104</u>
Balances at 31 December:		
Loans and advances:		
- Shareholders and their related companies	-	25,740
- Directors and their related companies	220	3,875
- Key management personnel	<u>18,186</u>	<u>17,899</u>
	<u>18,406</u>	<u>47,514</u>
Due to customers:		
- Shareholders and their related companies	1,349,557	1,074,427
- Directors and their related companies	66,728	78,247
- Key management personnel	<u>7,330</u>	<u>9,748</u>
	<u>1,423,615</u>	<u>1,162,422</u>
Irrevocable commitments, contingent liabilities and forward contracts		
- Shareholders and their related companies	122,860	74,262
- Directors and their related companies	<u>456</u>	<u>6,657</u>
	<u>123,316</u>	<u>80,919</u>

30 Cash and cash equivalents

	2014 AED'000	2013 AED'000
Cash in hand (Note 5)	696,244	568,206
Current account balance with the UAE Central Bank (Note 5)	-	198,242
Due from other banks (Note 6)	<u>305,947</u>	<u>543,899</u>
	<u>1,002,191</u>	<u>1,310,347</u>
Less : Due from other banks with original maturity of 3 months or more	<u>-</u>	<u>-</u>
	<u>1,002,191</u>	<u>1,310,347</u>

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

31 Segments analysis

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting to the management, which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has three main business segments:

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

The above segments include conventional and Islamic products and services of the Group.

As the Group's segment operations are all financial with a majority of revenues deriving from interest and fees and commission income, the management 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 funds transfer pricing policy. There are no other material items of income or expense between the business segments.

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

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

31 Segments analysis (continued)

The segment information provided to the management for the reportable segments for the year ended 31 December 2014 is as follows:

	<i>Retail banking</i> AED'000	<i>Business banking</i> AED'000	<i>Treasury and others</i> AED'000	<i>Unallocated costs/assets /liabilities</i> AED'000	<i>Total</i> AED'000
31 December 2014					
Net external interest income	2,330,219	123,618	124,366	-	2,578,203
Net income from Islamic financing	179,003	-	-	-	179,003
Transfer pricing income/expense	(33,015)	10,359	22,656	-	-
Net interest income and Income from Islamic financing	2,476,207	133,977	147,022	-	2,757,206
Non-interest income	677,426	66,187	54,333	-	797,946
Operating income	3,153,633	200,164	201,355	-	3,555,152
Operating expense excluding depreciation	(1,032,187)	(62,960)	(6,102)	(273,970)	(1,375,219)
Depreciation	(57,380)	(1,547)	(58)	(71,015)	(130,000)
Total Operating expense	(1,089,567)	(64,507)	(6,160)	(344,985)	(1,505,219)
Impairment charge net of write off / recovery	(592,169)	(3,162)	-	-	(595,331)
Net profit / (loss)	1,471,897	132,495	195,195	(344,985)	1,454,602
Segment assets	24,079,975	2,177,868	7,554,542	-	33,812,385
Unallocated assets	-	-	-	1,017,772	1,017,772
Total assets	24,079,975	2,177,868	7,554,542	1,017,772	34,830,157
Segment liabilities	20,069,666	3,490,635	3,676,715	-	27,237,016
Unallocated liabilities	-	-	-	462,020	462,020
Total liabilities	20,069,666	3,490,635	3,676,715	462,020	27,699,036

Business banking liabilities includes customer deposits which were classified under retail banking in year 2013.

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

Notes to the consolidated financial statements for the year ended 31 December 2014
(continued)

31 Segments analysis (continued)

	Retail banking	Business banking	Treasury and others	Unallocated costs/assets /liabilities	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2013					
Net external interest income	2,348,087	(7,630)	89,518	-	2,429,975
Net income from Islamic financing	37,327	(1,795)	-	-	35,532
Transfer pricing income/expense	(67,984)	46,634	21,350	-	-
Net interest income and Income from Islamic financing	2,317,430	37,209	110,868	-	2,465,507
Non-interest income	537,787	67,825	79,208	-	684,820
Operating income	2,855,217	105,034	190,076	-	3,150,327
Operating expense excluding depreciation	(888,948)	(79,307)	(4,911)	(278,812)	(1,251,978)
Depreciation	(56,233)	(2,035)	(60)	(68,580)	(126,908)
Total Operating expense	(945,181)	(81,342)	(4,971)	(347,392)	(1,378,886)
Impairment charge net of write off / recovery	(341,673)	1,050	-	-	(340,623)
Net profit / (loss)	1,568,363	24,742	185,105	(347,392)	1,430,818
Segment assets	21,935,133	925,936	6,176,724	-	29,037,793
Unallocated assets	-	-	-	1,088,976	1,088,976
Total assets	21,935,133	925,936	6,176,724	1,088,976	30,126,769
Segment liabilities	13,545,444	8,314,559	1,358,217	-	23,218,220
Unallocated liabilities	-	-	-	392,479	392,479
Total liabilities	13,545,444	8,314,559	1,358,217	392,479	23,610,699

During the year the group has reclassified certain deposits of business customers which were earlier classified in business banking segment to the retail banking segment in accordance with a change in the internal reporting structure. The segmental analysis for the year ended 31 December 2013 has not been reclassified to give the above effect.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

32 Fiduciary activities

The Group holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2014, such assets amounted to AED1,775.5million (2013: AED 1,666.6 million) and are excluded from these consolidated financial statements of the bank.

33 List of subsidiaries

The following entities have been treated as subsidiaries for the purpose of consolidation as per the Bank's accounting policy as disclosed in Note 2(b). The Bank's interests, held directly or indirectly, in the subsidiaries are as follows:

Subsidiary	Authorised and issued capital	Ownership interest	Incorporated	Principal Activities
RAK Islamic Finance Company Pvt. J.S.C	AED 100 million	99.9%	UAE	To sell sharia compliant financial products
BOSS FZCO	AED 500,000	80%	UAE	Back office support services to the Bank
RAK Technologies FZCO	AED 500,000	80%	UAE	Technological support services to the Bank
Rakfunding Cayman Limited	USD 100	99.9%	Cayman Island	To facilitate the issue of USD 500 million Euro medium term notes (EMTN) under the Bank's USD 1 billion EMTN programme.

During the year 2014, BOSS FZCO, RAK technologies FZCO and Rakfunding Cayman Limited generated nil profit and has negligible net assets hence non-controlling interest deemed to be immaterial.

34 Debt securities issued

	2014	2013
	AED'000	AED'000
USD 500 medium term note at discount	1,824,467	-
Less : Own investment in debt security issued	(160,553)	-
Less : Debt security issue costs	(9,074)	-
Fair value adjustment on debt securities issued hedged	12,789	-
	1,667,629	-

The Group issued USD 500 million medium term note in June 2014 under its USD 1 billion medium term note programme through its subsidiary RAKFunding Cayman Limited. The note was issued at a discounted rate of 99.275%. These notes mature in 2019 and carry a fixed interest rate of 3.25% per annum. Interest on these medium term notes is payable half-yearly in arrears.

35 Legal proceedings

The Bank is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Bank's consolidated financial statements if settled unfavourably.

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

Notes to the consolidated financial statements for the year ended 31 December 2014 (continued)

36 Subsequent events

In the Ordinary General Assembly on 18 August 2014, the shareholders of the Bank approved the acquisition of a majority stake in Ras Al Khaimah National Insurance Company PSC (RAKNIC) at a cash price of Dh3.64 per share. The bank received approval on 6 January 2015 from the Central Bank of UAE to proceed with the share purchase offer to the shareholders of RAKNIC.

RAKNIC is listed on the Abu Dhabi Securities Exchange and the Government of Ras Al Khaimah has a 47 per cent stake in the company. RAKNIC provides general insurance, including fire, marine, motor and accident cover. The total assets of RAKNIC based on 30 September 2014 unaudited results were AED 511 million and the net profit for the unaudited nine month period was AED 33.6 million.

Accordingly, it is expected that the acquisition should be completed within the next quarter.

37 Reclassification

Previous year's numbers are reclassified and regrouped to conform to the current year classification.