

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

**Condensed consolidated interim financial information
for the nine months ended 30 September 2014**

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

Condensed consolidated interim financial information for the nine months ended 30 September 2014

	Pages
Review report	1
Condensed consolidated statement of financial position	2
Condensed consolidated income statement	3
Condensed consolidated statement of comprehensive income	4
Condensed consolidated statement of changes in equity	5
Condensed consolidated statement of cash flows	6 – 7
Notes to the condensed consolidated interim financial information	8 – 37



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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of The National Bank of Ras Al-Khaimah (P.S.C.) ("the Bank") and its subsidiaries (together referred to as "the Group") as at 30 September 2014 and the related condensed consolidated interim statements of income and, comprehensive income for the three-month and nine-month periods then ended, and condensed consolidated statement changes in equity and cash flows for the nine-month period then ended, and other explanatory notes. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 – Interim Financial Reporting.

PricewaterhouseCoopers
22 October 2014

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

PricewaterhouseCoopers, Emaar Square, Building 4, Level 8, PO Box 11987, Dubai, United Arab Emirates T: +971 (0)4 304 3100, F: +971 (0)4 330 4100, www.pwc.com/middle-east

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

Condensed consolidated statement of financial position

	Notes	30 September 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
ASSETS			
Cash and balances with UAE Central Bank	3	4,712,755	3,622,262
Due from other banks	4	472,802	543,899
Loans and advances, net	5	24,442,691	21,959,245
Investment securities	7	3,898,581	2,695,952
Property and equipment, net	8	958,090	1,028,873
Other assets	9	309,189	276,538
Total assets		34,794,108	30,126,769
LIABILITIES			
Due to other banks and Central Bank		1,140,776	3,357
Deposits from customers	10	24,663,756	23,069,147
Debt security in issue	30	1,653,809	-
Other liabilities	12	511,277	472,745
Provision for employees' end of service benefits		72,048	65,450
Total liabilities		28,041,666	23,610,699
Equity			
Share capital	13	1,676,245	1,676,245
Share premium		110,350	110,350
Retained earnings		1,687,799	1,452,439
Other reserves	14	3,278,048	3,277,036
Total equity		6,752,442	6,516,070
Total liabilities and equity		34,794,108	30,126,769

This condensed consolidated interim financial information was approved by the Board Audit and Risk Committee on 22 October 2014 and was signed on its behalf by:


 Peter William England
 Chief Executive Officer

The notes from 1 to 31 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated income statement (reviewed)

		<u>Three months ended</u> <u>30 September</u>		<u>Nine months ended</u> <u>30 September</u>	
		2014	2013	2014	2013
	Notes	AED'000	AED'000	AED' 000	AED '000
Interest income	17	715,055	673,595	2,074,183	2,001,685
Interest expense	17	(54,806)	(57,734)	(157,132)	(193,540)
Net interest income		660,249	615,861	1,917,051	1,808,145
Income from Islamic financing	18	59,074	15,641	132,070	25,542
Distribution to depositors	18	(7,377)	(3,579)	(22,288)	(5,761)
Income from Islamic financing net of distribution to depositors		51,697	12,062	109,782	19,781
Net interest income and income from Islamic financing net of distribution to depositors		711,946	627,923	2,026,833	1,827,926
Net fees and commission income	19	169,477	133,372	489,233	398,268
Foreign exchange income, net		23,413	18,793	64,857	55,682
Investment income	20	5,100	-	7,144	19,336
Other operating income		17,257	12,507	38,146	33,492
Non-interest income		215,247	164,672	599,380	506,778
Operating income		927,193	792,595	2,626,213	2,334,704
Operating expenses	21	(387,453)	(350,305)	(1,127,672)	(1,014,189)
Provision for impairment of loans and advances net of write backs	5	(166,688)	(64,939)	(425,058)	(183,087)
Net profit for the period		373,052	377,351	1,073,483	1,137,428
Earnings per share					
Basic and diluted	22	AED 0.22	AED 0.23	AED 0.64	AED 0.68

The notes from 1 to 31 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of comprehensive income (reviewed)

	Notes	<u>Three months ended</u> <u>30 September</u>		<u>Nine months ended</u> <u>30 September</u>	
		2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
Profit for the period		373,052	377,351	1,073,483	1,137,428
Other comprehensive income:					
Net changes in fair value of available-for-sale investment securities	7	2,247	1,843	1,012	18,951
Other comprehensive income for the period		2,247	1,843	1,012	18,951
Total comprehensive income for the period		375,299	379,194	1,074,495	1,156,379

The notes from 1 to 31 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of changes in equity (reviewed)

	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Total AED'000
At 1 January 2014	1,676,245	110,350	1,452,439	3,277,036	6,516,070
Dividend (Note 13)	-	-	(838,123)	-	(838,123)
Total comprehensive income for the period	-	-	1,073,483	1,012	1,074,495
At 30 September 2014	<u>1,676,245</u>	<u>110,350</u>	<u>1,687,799</u>	<u>3,278,048</u>	<u>6,752,442</u>
At 1 January 2013	1,523,859	110,350	1,183,109	2,877,897	5,695,215
Issue of bonus shares	152,386	-	(152,386)	-	-
Dividend (Note 13)	-	-	(609,543)	-	(609,543)
Total comprehensive income for the period	-	-	1,137,428	18,951	1,156,379
At 30 September 2013	<u>1,676,245</u>	<u>110,350</u>	<u>1,558,608</u>	<u>2,896,848</u>	<u>6,242,051</u>

The notes from 1 to 31 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of cash flows

(reviewed)

		Nine months ended 30	
		September	
	Notes	2014 AED'000	2013 AED'000
Operating activities			
Net Profit for the period		1,073,483	1,137,428
Adjustments:			
Provision for impairment of loans and advances net of write backs	5(d)	425,058	183,087
Depreciation	8	97,127	93,353
Provision for employees' end of service benefits		14,656	10,074
Gain on disposal of property and equipment		(333)	(284)
Amortisation of premium relating to securities held to maturity	7	11,769	9,476
Gain on held for trading investment securities	7	(1,334)	-
(Gain) / loss on sale investment securities	7	(3,636)	(13,014)
Operating cash flows before payment of employees end of service benefits and changes in assets and liabilities:		1,616,790	1,420,120
Payment of employees' end of service benefits		(8,058)	(6,674)
Changes in assets and liabilities:			
Deposits with the UAE Central Bank	3	(1,146,314)	306,833
Due from other banks with original maturities of three months or over		(36,730)	206,952
Loans and advances, Islamic Financing assets net of provisions for impairment	5	(2,908,504)	(1,572,255)
Other assets	9	(32,651)	(49,874)
Due to other banks (net of amount due to Central Bank)		1,137,419	216,209
Deposits from customers	10	1,594,609	940,844
Other liabilities	12	38,532	41,045
Net cash generated from operating activities		255,093	1,503,200
Investing activities			
Purchase of investment securities	7	(1,253,955)	(1,468,168)
Purchase of property and equipment	8	(26,366)	(109,609)
Proceeds from maturity / disposal of investments	7	45,539	491,830
Proceeds from disposal of property and equipment		355	368
Net cash used in investing activities		(1,234,427)	(1,085,579)

The notes from 1 to 31 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of cash flows

(reviewed) (continued)

	Notes	<u>Nine months ended 30</u>	
		<u>September</u>	
		2014	2013
		AED'000	AED'000
Financing activities			
Dividends paid		(838,123)	(609,543)
Debt securities issued	30	1,653,809	-
		<u>815,686</u>	<u>(609,543)</u>
Net cash used in financing activities			
		(163,648)	(191,922)
Net decrease in cash and cash equivalents			
Cash and cash equivalents, beginning of the period		1,310,347	1,364,199
		<u>1,146,699</u>	<u>1,172,277</u>
Cash and cash equivalents, end of the period	24		

The notes from 1 to 31 form an integral part of the condensed consolidated interim financial statements

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014

1 Incorporation and principal activities

The National Bank of Ras Al-Khaimah (P.S.C.) ("the Bank") is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates ("UAE"). The head office of the Bank is located at the National Bank of Ras Al-Khaimah building, Al Rifa area, Exit No. 129, Sheikh Mohammed Bin Zayed road, Ras Al-Khaimah.

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

At 30 September 2014, The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and four subsidiaries (together the "Group"). These subsidiaries are RAK Islamic Finance Pvt. J.S.C in which the Bank owns 99.9%, BOSS FZCO and RAK Technologies FZCO in which the Bank owns 80% and RAKFunding Cayman Limited in which bank owns 99.9%. RAK Islamic Finance Pvt. J.S.C has an authorised and issued capital of AED 100 million, and was incorporated to enable the Bank to sell sharia compliant financial products. BOSS FZCO and RAK Technologies FZO have been incorporated to provide back office support services to the Bank. BOSS FZCO and RAK Technologies FZCO have an authorised and issued share capital of AED 500,000 each and were formed under the Dubai Silicon Oasis Authority guidelines. RAKFunding Cayman Limited is registered in Cayman Islands and was incorporated to facilitate the issue of USD 500 million Euro medium term notes under RAKBANK's USD 1 billion EMTN programme launched in June 2014.

The condensed consolidated interim financial information for the nine months ended 30 September 2014 comprises the Bank and its subsidiaries (together referred to as "the Group").

2 Significant accounting policies

2.1 Basis of preparation

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

The accounting policies applied in the preparation of the condensed consolidated interim financial information are consistent with those applied in the annual financial statements for the year ended 31 December 2013. The policies below are not a complete list of significant accounting policies which are included in the 2013 Financial Statements.

The condensed consolidated interim financial information should therefore be read in conjunction with the annual financial statements for year ended 31 December 2013.

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Application of new and revised International Financial Reporting Standards (IFRSs)

New and revised IFRSs effective for accounting periods beginning January 1, 2014

Amendments to IAS 32-Financial Instruments require presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off '
- the application of simultaneous realisation and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements

Amendments to IFRS 10-Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements relate only to investment entities, therefore will not apply to the Bank.

Amendment to IAS 36-Impairment of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.

Amendment to IAS 39-Financial Instruments: Recognition and Measurement makes it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.1 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

New and revised IFRSs effective for accounting periods beginning January 1, 2014 (continued)

IAS 19 - Employee Benefits (Effective 1 July 2014) clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.

IFRS 8 - Operating Segments (Effective 1 July 2014) requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.

IFRS 13 - Fair Value Measurement (effective 1 July 2014) (a) clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only) (b) clarify the scope of the portfolio exception in paragraph 52.

IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets (effective 1 July 2014) clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.

IAS 24 - Related Party Disclosures (effective 1 July 2014) clarify how payments to entities providing management services are to be disclosed.

There is no impact of these provisions on the interim financial statement of the Group.

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 Group's condensed consolidated interim financial information.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.2 Standards and Interpretations in issue not yet effective

The Group has not early adopted new and revised IFRSs that have been issued but are not yet effective

New Standards and amendments to Standards :

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognized when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the guidance in IAS 39 that relates to the classification and measurement of financial instruments. 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 not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness test. 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. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

2 Significant accounting policies (continued)

2.2 Functional and presentation currency

For the purpose of condensed consolidated interim financial information, the results and financial position of each entity are expressed in U.A.E Dirham (AED), which is the functional and presentation currency of the Group for these condensed consolidated interim financial information, rounded to the nearest thousand.

2.3 Basis of consolidation

This condensed consolidated interim financial information incorporates the financial statements of the National Bank of Ras Al- Khaimah (P.S.C) and its subsidiaries (the "Group").

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50 per cent of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases. The financial statements of the subsidiary are included in the consolidated financial statements from the date the control commences until the date that control ceases.

Transactions and balances eliminated on consolidation

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

2 Significant accounting policies (continued)

2.4 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 balance sheet 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 Group first assesses whether objective evidence of impairment exists 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 National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

2 Significant accounting policies (continued)

2.4 Loans and advances and provision for impairment (continued)

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 (ie, 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 statement of income.

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. In subsequent years, the loan is considered to be past due and disclosed only if renegotiated again.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

2 Significant accounting policies (continued)

2.5 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 essentially the same as for conventional banking loans and deposits (Note 2.4).

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 the 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 using the 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.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

2 Significant accounting policies (continued)

2.5 Islamic financing (continued)

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.

2.6 Investment securities

The Group classifies its investment securities in the following categories: trading securities, held-to-maturity investments and available-for-sale investments. 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 the sale is due to significant deterioration in the credit worthiness 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 receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

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

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.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

2 Significant accounting policies (continued)

2.6 Investment securities (continued)

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

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

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

Interest earned whilst holding investment securities is reported as income from investment securities in the consolidated income statement. Dividends on available-for-sale and held for trading equity instruments are recognised in the consolidated income statement when the entity's right to receive payment is established.

The Group assesses at each balance sheet 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 consolidated income statement – is removed from the consolidated statement of comprehensive income and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on available-for-sale equity instruments are not reversed through the consolidated income statement.

The Group assesses at each balance sheet date whether there is objective evidence that debt securities classified as available-for-sale and those held to maturity are impaired. Debt securities are impaired and impairment losses are incurred only if there is objective evidence that the 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; and
- Deterioration of the borrower's competitive position.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

2 Significant accounting policies (continued)

2.6 Investment securities (continued)

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 an asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

3 Cash and balances with the UAE Central Bank

	30 September 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Cash in hand	710,627	568,206
Balances with UAE Central Bank	-	198,242
Statutory deposit with the UAE Central Bank	2,602,128	2,105,814
Certificates of deposit with the UAE Central Bank	1,400,000	750,000
	<u>4,712,755</u>	<u>3,622,262</u>

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

4 Due from other banks

	30 September 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Placements with other banks	202,015	275,475
Demand deposits	56,668	170,942
Clearing account balances	214,119	97,482
	<u>472,802</u>	<u>543,899</u>

The below represents deposits and balances due from banks by resident country:

Banks in UAE	379,704	373,257
Banks outside UAE	93,098	170,642
	<u>472,802</u>	<u>543,899</u>

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

5 Loans and advances, net (including Islamic financing)

	30 September 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
5(a) Loans and advances		
Retail loans	23,170,968	21,400,640
Corporate loans	1,767,080	954,218
Loans and advances (Note 5(b))	24,938,048	22,354,858
Provision for impairment (Note 5(c))	(495,357)	(395,613)
Net loans and advances	24,442,691	21,959,245

5(b) Analysis of loans and advances

Commercial loans and overdrafts	10,517,933	9,778,256
Personal loans	3,012,590	3,179,806
Mortgage loans	3,791,592	3,669,002
Credit cards	2,844,526	2,864,215
Auto loans	1,912,867	1,685,885
Islamic financing assets (Note 6)	2,858,540	1,177,694
Total loans and advances	24,938,048	22,354,858

5(c) Provision for impairment

	Retail loans AED'000	Corporate loans AED'000	Total AED'000
Balance brought forward 1 January 2014	365,032	30,581	395,613
Impairment charge/(release) (Note 5(d))	463,951	244	464,195
Written off during the period	(364,119)	(332)	(364,451)
Balance carried forward 30 September 2014 (reviewed)	<u>464,864</u>	<u>30,493</u>	<u>495,357</u>
Balance brought forward 1 January 2013	292,203	31,907	324,110
Impairment charge/(release)	393,145	(1,050)	392,095
Written off during the year	(320,316)	(276)	(320,592)
Balance carried forward 31 December 2013 (audited)	<u>365,032</u>	<u>30,581</u>	<u>395,613</u>

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

5 Loans and advances (continued)

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

	Retail loans AED'000	Corporate loans AED'000	Total AED'000
<u>Three months ended 30 September 2014 (reviewed)</u>			
Impairment charge/(release)	177,150	-	177,150
Recovery during the period	(10,462)	-	(10,462)
	<u>166,688</u>	<u>-</u>	<u>166,688</u>
<u>30 September 2013 (reviewed)</u>			
Impairment charge/(release)	78,061	(738)	77,323
Recovery during the period	(12,384)	-	(12,384)
	<u>65,677</u>	<u>(738)</u>	<u>64,939</u>
<u>Nine months ended 30 September 2014 (reviewed)</u>			
Impairment charge/(release)	463,951	244	464,195
Recovery during the period	(39,137)	-	(39,137)
	<u>424,814</u>	<u>244</u>	<u>425,058</u>
<u>30 September 2013 (reviewed)</u>			
Impairment charge/(release)	221,946	(330)	221,616
Recovery during the period	(38,529)	-	(38,529)
	<u>183,417</u>	<u>(330)</u>	<u>183,087</u>

Recoveries mainly represent amounts subsequently recovered from fully written off loans.

5(e) Impaired loans and advances provision coverage

	30 September 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Aggregate impaired loans (as reported to the UAE Central bank)	569,385	539,840
Provision held	495,357	395,613
Coverage ratio	87.00%	73.28%

The ratio of provision held to aggregate impaired loans ("coverage ratio") does not take into account collateral available, including cash, property and other realizable asset.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

6 Islamic financing assets

6(a) Islamic financing assets

	30 September 2014 (reviewed)	31 December 2013 (audited)
Islamic retail financing asset	2,858,540	1,177,694
Total Islamic financing assets	2,858,540	1,177,694
Provision for impairment	(23,588)	(5,312)
	<u>2,834,952</u>	<u>1,172,382</u>

6(b) Analysis of Islamic financing assets

Islamic Salam personal finance	1,453,523	730,088
Islamic Auto Murabaha	771,972	370,079
Islamic business finance	454,221	34,938
Islamic Ijara property finance	51,819	-
Islamic credit cards	127,005	42,589
	<u>2,858,540</u>	<u>1,177,694</u>

7 Investment securities

Securities available-for-sale

Quoted equity securities	20,529	-
Quoted debt securities	42,137	42,268
	<u>62,666</u>	<u>42,268</u>

Held for trading

Quoted equity securities	-	-
--------------------------	---	---

Securities held-to-maturity

Quoted debt securities	3,835,915	2,653,684
------------------------	-----------	-----------

Total investment securities

	<u>3,898,581</u>	<u>2,695,952</u>
--	------------------	------------------

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

	30 September 2014 AED'000	31 December 2013 AED'000
UAE	2,725,775	2,000,169
Other GCC countries	239,729	153,152
India	933,077	542,631
	<u>3,898,581</u>	<u>2,695,952</u>

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

7 Investment securities (continued)

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

	30 September 2014 AED'000 (reviewed)	31 December 2013 AED'000 (audited)
Federal and local Government – UAE	1,310,292	1,095,983
Government related entity – UAE	580,785	275,070
Government – GCC	94,087	94,280
Government related entity – GCC	86,835	-
Banks and financial institutions – UAE	649,463	629,115
Banks and financial institutions – GCC	58,807	58,873
Banks and financial institutions – Non UAE/GCC	605,588	304,117
Public limited companies – UAE	185,235	-
Public limited companies – Non UAE	327,489	238,514
	<u>3,898,581</u>	<u>2,695,952</u>

The movement in investment securities is as follows:

	Securities available- for- sale AED'000	Securities held for trading AED'000	Securities held – to – maturity AED'000	Total AED'000
At 1 January 2014	42,268	-	2,653,684	2,695,952
Purchases	50,676	9,359	1,193,920	1,253,955
Disposals / Maturities	(34,846)	(10,693)	-	(45,539)
Net changes in fair value	1,012	-	-	1,012
Amortisation of premium	(80)	-	(11,689)	(11,769)
Profit/(Loss) on sale	3,636	1,334	-	4,970
At 30 September 2014 (reviewed)	<u>62,666</u>	<u>-</u>	<u>3,835,915</u>	<u>3,898,581</u>
At 1 January 2013	42,688	-	1,544,190	1,586,878
Purchases	106,483	-	1,361,685	1,468,168
Disposals* / Maturities	(20,617)	-	(458,199)	(478,816)
Net changes in fair value	18,951	-	-	18,951
Amortisation of premium	-	-	(9,476)	(9,476)
At 30 September 2013 (reviewed)	<u>147,505</u>	<u>-</u>	<u>2,438,200</u>	<u>2,585,705</u>

* Management undertook a review of held to maturity bonds portfolio in April 2013 and a decision was taken to exit two bonds with carrying value of AED 165.2 million. All other reductions are due to redemptions at normal maturity date.

The National Bank of Ras Al-Khaimah (P.S.C.)
Notes to the condensed consolidated interim financial
information for the nine months ended 30 September
2014 (continued)

8 Property and equipment, net

	Land and buildings AED'000	Leasehold Improvements AED'000	Other fixed assets AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2014	609,162	119,378	764,082	41,982	1,534,604
Additions	-	-	10,140	16,226	26,366
Transfers	3,396	5,141	15,647	(24,184)	-
Disposals	-	(169)	(1,476)	-	(1,645)
At 30 September 2014	612,558	124,350	788,393	34,024	1,559,325
Accumulated Depreciation					
At 1 January 2014	66,255	72,602	366,874	-	505,731
Charge for the period	15,617	11,548	69,962	-	97,127
Disposals	-	(169)	(1,454)	-	(1,623)
At 30 September 2014	81,872	83,981	435,382	-	601,235
Net book amount					
At 30 September 2014 (reviewed)	530,686	40,369	353,011	34,024	958,090
At 31 December 2013 (audited)	542,907	46,776	397,208	41,982	1,028,873
Cost					
At 1 January 2013	519,473	105,228	672,990	121,540	1,419,231
Additions	33,662	804	17,979	57,164	109,609
Transfers	30,787	12,169	60,021	(102,977)	-
Disposals	(225)	(1,870)	(1,955)	-	(4,050)
At 30 September 2013	583,697	116,331	749,035	75,727	1,524,790
Accumulated Depreciation					
At 1 January 2013	48,074	59,425	275,959	-	383,458
Charge for the period	13,287	11,065	69,001	-	93,353
Disposals	(160)	(1,870)	(1,936)	-	(3,966)
At 30 September 2013	61,201	68,620	343,024	-	472,845
Net book amount					
At 30 September 2013 (reviewed)	522,496	47,711	406,011	75,727	1,051,945
At 31 December 2012 (audited)	471,399	45,803	397,031	121,540	1,035,773

The National Bank of Ras Al-Khaimah (P.S.C.)
Notes to the condensed consolidated interim financial
information for the nine months ended 30 September
2014 (continued)

8 Property and equipment, net (continued)

Other fixed assets include computer equipment, furniture and fixtures, equipment and motor vehicles. Capital work in progress mainly comprises of the costs pertaining to staff accommodation and improvement or set up costs for branches.

9 Other assets

	30 September 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Interest receivable	192,597	175,973
Profit receivable on Islamic financing assets	29,755	11,941
Prepayments and deposits	57,036	54,229
Others	29,801	34,395
	<u>309,189</u>	<u>276,538</u>

10 Deposits from customers

	30 September 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Time deposits	6,000,265	7,104,006
Current accounts	11,327,437	9,573,066
Savings deposits	3,760,640	3,416,942
Call deposits	1,154,601	1,010,673
Islamic customer deposits (note 11)	2,420,813	1,964,460
	<u>24,663,756</u>	<u>23,069,147</u>

Time deposits include AED 308 million (2013: AED 255 million) held by the Group as cash collateral for loans and advances granted to customers.

11 Islamic customer deposits

	30 September 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Wakala investment deposits	1,212,749	1,017,385
Mudaraba term investment deposits	77,435	55,673
Qard-E-Hasan -current accounts	312,374	145,001
Mudaraba -current accounts	677,389	618,427
Mudaraba -savings deposits	135,480	125,376
Mudaraba-call deposits	5,386	2,598
	<u>2,420,813</u>	<u>1,964,460</u>

The National Bank of Ras Al-Khaimah (P.S.C.)
Notes to the condensed consolidated interim financial
information for the nine months ended 30 September
2014 (continued)

12 Other liabilities

	30 September 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Interest payable	44,430	39,738
Profit distributable on Islamic deposits	10,414	9,106
Accrued expenses	183,260	155,364
Managers cheques issued	130,516	150,123
Others	142,657	118,414
	<u>511,277</u>	<u>472,745</u>

13 Share capital and dividend

At 30 September 2014, the authorised, issued and fully paid share capital of the Group comprised 1,676.25 million shares of AED 1 each (31 December 2013: 1,676.25 million shares of AED 1 each).

At the meeting of 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.

14 Other reserves

Other reserves include legal reserve and voluntary reserve. In accordance with the Articles of Association of the Group, 10% of the net profit for the year is to be transferred to a legal reserve until such time as the balance in the reserve equals 50% of the issued share capital and 10% of the net profit for the year is to be transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. No allocations to the legal reserve and the voluntary reserve have been made for the nine month period ended 30 September 2014, as these will be effected at the year end based on the Group's audited results for the year ending 31 December 2014. The movement in other reserves is on account of fair value gains on investment securities.

In 2012, the shareholders of the Bank approved the creation of a non-distributable special reserve titled 'Reserve - Regulatory Credit risk' reserve account. This reserve is maintained at least 1.5% of the credit risk weighted assets at the end of each financial year, as required by the Central Bank of UAE.

The National Bank of Ras Al-Khaimah (P.S.C.)
Notes to the condensed consolidated interim financial
information for the nine months ended 30 September
2014 (continued)

15 Contingencies and commitments

	30 September 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Commitments to extend credit	7,794,597	6,648,849
Letters of guarantee	662,668	570,353
Letters of credit	64,153	62,951
Acceptances	51,469	28,938
Capital commitments	12,114	11,937
	<u>8,585,001</u>	<u>7,323,028</u>

Commitments to extend credit represent unfunded amounts out of approved limits offered to customers, of which AED 7.7 billion (31 December 2013 AED 6.6 billion) are revocable at the discretion of the Group.

16 Forward foreign exchange contracts

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

Outstanding forward foreign exchange transactions at 30 September 2014 and 31 December 2013 are as follows:

	Contract amount AED'000	Fair value AED'000
30 September 2014 (reviewed)	<u>744,373</u>	<u>665</u>
31 December 2013 (audited)	<u>481,291</u>	<u>375</u>

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

Outstanding interest rate swap transactions at 30 September 2014 and 31 December are as follows

	Contract amount AED'000	Fair value AED'000
30 September 2014 (reviewed)	<u>1,674,888</u>	<u>4,799</u>
31 December 2013 (audited)	<u>-</u>	<u>-</u>

The National Bank of Ras Al-Khaimah (P.S.C.)
Notes to the condensed consolidated interim financial
information for the nine months ended 30 September
2014 (continued)

17 Interest income and expense

	<u>Three months ended</u> <u>30 September</u> <u>(reviewed)</u>		<u>Nine months ended</u> <u>30 September</u> <u>(reviewed)</u>	
	2014	2013	2014	2013
	AED'000	AED'000	AED'000	AED'000
Interest income				
Commercial loans and overdrafts	360,215	332,808	1,036,013	982,954
Retail loans	57,972	71,539	180,408	221,861
Mortgage loans	51,408	55,064	155,610	166,184
Credit cards	163,039	154,166	476,120	457,298
Auto loans	36,498	31,701	103,895	88,878
Other banks	1,366	916	3,529	2,198
Investment securities	42,927	26,955	115,144	79,977
Deposits with the UAE Central Bank	1,630	446	3,464	2,335
Total interest income	<u>715,055</u>	<u>673,595</u>	<u>2,074,183</u>	<u>2,001,685</u>
Interest expense				
Due to customers	46,449	57,494	147,810	192,808
Debt security in issue	7,963	-	8,533	-
Borrowings from other banks	394	240	789	732
Total interest expense	<u>54,806</u>	<u>57,734</u>	<u>157,132</u>	<u>193,540</u>
Net interest income	<u>660,249</u>	<u>615,861</u>	<u>1,917,051</u>	<u>1,808,145</u>

The National Bank of Ras Al-Khaimah (P.S.C.)
Notes to the condensed consolidated interim financial
information for the nine months ended 30 September
2014 (continued)

18 Income from Islamic financing and distribution to depositors

	<u>Three months ended</u> <u>30 September (reviewed)</u>		<u>Nine months ended</u> <u>30 September (reviewed)</u>	
Income from Islamic Financing				
Islamic Salam personal finance	28,335	11,429	68,530	19,059
Islamic auto Murabaha	13,362	3,802	32,331	5,408
Islamic business finance	16,704	-	29,667	-
Islamic investments	405	410	1,188	1,075
Islamic property finance	268	-	354	-
Total income from Islamic Financing	59,074	15,641	132,070	25,542
Distribution to Islamic depositors	(7,377)	(3,579)	(22,288)	(5,761)
Income from Islamic financing net of distribution to depositors	51,697	12,062	109,782	19,781

19 Net fees and commission income

	<u>Three months ended</u> <u>30 September</u> <u>(reviewed)</u>		<u>Nine months ended</u> <u>30 September</u> <u>(reviewed)</u>	
	2014	2013	2014	2013
	AED'000	AED'000	AED'000	AED'000
Credit cards	54,888	43,398	153,657	131,763
Commercial loans	30,972	19,960	86,904	58,490
Retail loans	6,226	5,783	17,568	12,820
Mortgage loans	8,040	7,182	25,602	22,340
Auto loans	10,484	9,875	30,283	22,970
Trade finance	7,442	4,192	22,519	11,369
Fiduciary income	20,790	16,841	60,978	56,759
Others	30,635	26,141	91,722	81,757
	169,477	133,372	489,233	398,268

The National Bank of Ras Al-Khaimah (P.S.C.)
Notes to the condensed consolidated interim financial
information for the nine months ended 30 September
2014 (continued)

20 Investment income

	<u>Three months ended</u> <u>30 September</u> <u>(reviewed)</u>		<u>Nine months ended</u> <u>30 September</u> <u>(reviewed)</u>	
	2014	2013	2014	2013
	AED'000	AED'000	AED'000	AED'000
Profit/(loss)- unrealized	130	-	-	-
Profit/ (loss) – realized	4,970	-	4,970	13,014
Dividend and other income	-	-	2,174	6,322
	<u>5,100</u>	<u>-</u>	<u>7,144</u>	<u>19,336</u>

21 Operating Expense

	<u>Three months ended</u> <u>30 September</u> <u>(reviewed)</u>		<u>Nine months ended</u> <u>30 September</u> <u>(reviewed)</u>	
	2014	2013	2014	2013
	AED'000	AED'000	AED'000	AED'000
Staff costs	165,879	144,545	475,185	440,268
Occupancy costs	24,108	23,448	68,886	67,379
Marketing expenses	8,125	8,750	27,375	25,564
Depreciation (Note 8)	32,944	32,609	97,127	93,353
Services	12,741	12,646	38,113	36,191
Legal and consultancy fees	9,451	15,117	30,423	40,494
Computer expenses	19,355	17,977	57,391	47,019
Outsourced staff costs	92,738	77,314	272,445	215,876
Others	22,112	17,899	60,727	48,045
	<u>387,453</u>	<u>350,305</u>	<u>1,127,672</u>	<u>1,014,189</u>

22 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares during the period ended 30 September 2014 amounted to 1,676,245,428 shares (30 September 2013: 1,676,245,428 shares).

23 Fiduciary activities

The Group holds assets in a fiduciary capacity for its customers without recourse to itself. At 30 September 2014, such assets amounted to AED 1,769.86 million (31 December 2013: AED 1,666.6 million) and are excluded from the condensed consolidated interim financial information of the Group.

The National Bank of Ras Al-Khaimah (P.S.C.)
Notes to the condensed consolidated interim financial
information for the nine months ended 30 September
2014 (continued)

24 Cash and cash equivalents

	At 30 September	
	2014	2013
	(reviewed)	(reviewed)
	AED'000	AED'000
Cash in hand and current account with the UAE Central Bank (Note 3)	710,627	511,947
Due from other banks (Note 4)	472,802	660,330
	<u>1,183,429</u>	<u>1,172,277</u>
Less: Due from other banks with original maturity of 3 months or more	(36,730)	-
	<u><u>1,146,699</u></u>	<u><u>1,172,277</u></u>

25 Operating segments

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting provided 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;
- Commercial 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, foreign exchange transactions 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 Group's cost of funds 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 operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items. During the quarter the Group has reclassified some of the corporate liabilities and brought it under retail umbrella.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

25 Operating segments (continued)

The segment information provided to the Management for the reportable segments for the period ended 30 September 2014 and 30 September 2013 is as follows:

	Retail Banking	Commercial banking	Treasury and others	Unallocated cost/asset/ liabilities	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
30 September 2014					
Net external interest income	1,742,159	78,277	96,615	-	1,917,051
Income from Islamic financing net of distribution to depositors	109,782	-	-	-	109,782
Transfer pricing income / expense	(24,032)	8,807	15,225	-	-
Net Interest / Income from Islamic financing					
Non interest income	1,827,909	87,084	111,840	-	2,026,833
Operating income	510,987	48,646	39,747	-	599,380
	2,338,896	135,730	151,587	-	2,626,213
	(770,440)	(45,034)	(4,623)	(210,448)	(1,030,545)
	(43,023)	(1,147)	(44)	(52,913)	(97,127)
Total operating expense	(813,463)	(46,181)	(4,667)	(263,361)	(1,127,672)
Impairment charge net of write off / recovery	(424,814)	(244)	-	-	(425,058)
Net profit / (loss)	1,100,619	89,305	146,920	(263,361)	1,073,483
Segment assets	23,869,055	1,739,272	8,146,861	-	33,755,188
Unallocated assets	-	-	-	1,038,920	1,038,920
Total assets	23,869,055	1,739,272	8,146,861	1,038,920	34,794,108
Segment liabilities	19,806,960	3,307,900	4,502,887	-	27,617,747
Unallocated liabilities	-	-	-	423,919	423,919
Total liabilities	19,806,960	3,307,900	4,502,887	423,919	28,041,666

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

25 Operating segments (continued)

	Retail banking AED'000	Commercial banking AED'000	Treasury and others AED'000	Unallocated cost/asset/ liabilities AED'000	Total AED'000
30 September 2013					
Net external interest income	1,753,790	(12,282)	66,637	-	1,808,145
Income from Islamic financing net of distribution to depositors	20,982 (53,551)	(1,201) 36,234	- 17,317	-	19,781
Interest income / expense from other segments				-	-
Net Interest income	<u>1,721,221</u>	<u>22,751</u>	<u>83,954</u>	<u>-</u>	<u>1,827,926</u>
Non interest income	410,362	49,157	47,259	-	506,778
Operating income	<u>2,131,583</u>	<u>71,908</u>	<u>131,213</u>	<u>-</u>	<u>2,334,704</u>
Operating expense excluding depreciation	(660,250) (40,943)	(58,825) (1,495)	(3,751) (45)	(198,010) (50,870)	(920,836) (93,353)
Total Operating expense	<u>(701,193)</u>	<u>(60,320)</u>	<u>(3,796)</u>	<u>(248,880)</u>	<u>(1,014,189)</u>
Impairment charge net of (recovery) / write off	(183,417)	330	-	-	(183,087)
Net profit / (loss)	<u>1,246,973</u>	<u>11,918</u>	<u>127,417</u>	<u>(248,880)</u>	<u>1,137,428</u>
Segment assets	21,761,980	786,561	5,087,571	-	27,636,112
Unallocated assets	-	-	-	1,228,983	1,228,983
Total assets	<u>21,761,980</u>	<u>786,561</u>	<u>5,087,571</u>	<u>1,228,983</u>	<u>28,865,095</u>
Segment liabilities	12,885,007	7,895,178	1,381,369	-	22,161,554
Unallocated liabilities	-	-	-	461,490	461,490
Total liabilities	<u>12,885,007</u>	<u>7,895,178</u>	<u>1,381,369</u>	<u>461,490</u>	<u>22,623,044</u>

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

26 Related parties balances

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

	<u>Nine months ended 30</u>	
	<u>September</u>	
	2014	2013
	(reviewed)	(reviewed)
	AED'000	AED'000
Transactions during the period		
Interest income	650	739
Interest expense	7,321	8,633
Commission income	1,014	487
Directors' remuneration	6,337	4,067
Remuneration payable to key management Personnel	10,982	16,798
	30 September	31
	2014	December
	(reviewed)	2013
	AED'000	(audited)
		AED'000
Balances		
Loans and advances:		
- Shareholders and their related companies	20,523	25,740
- Directors and their related companies	319	3,875
- Key management personnel	14,561	17,899
	<u>35,403</u>	<u>47,514</u>
Due to customers:		
- Shareholders and their related companies	997,389	1,073,772
- Directors and their related companies	93,284	78,247
- Key management personnel	8,252	9,748
	<u>1,098,925</u>	<u>1,161,767</u>
Irrevocable commitments and contingent liabilities and forward contracts		
- Shareholders and their related companies	106,581	74,262
- Directors and their related companies	12,489	6,657
	<u>119,070</u>	<u>80,919</u>

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

27 Capital adequacy

Capital structure and capital adequacy as per Basel II requirement as at 30 September 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 pillar1.

	30 September 2014 AED'000	31 December 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	3,278,048	3,277,036
Retained earnings	614,316	614,316
Total	5,678,959	5,677,947
Tier 2 capital	-	-
Total regulatory capital	5,678,959	5,677,947
Risk weighted assets		
Credit risk	21,344,887	18,720,220
Market risk	29,903	4,618
Operational risk	1,274,273	849,176
Total risk weighted assets	22,649,063	19,574,014
Capital adequacy ratio on regulatory capital	25.07%	29.01%
Capital adequacy ratio on Tier 1 capital	25.07%	29.01%

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

28 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 30 September 2014, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial asset and liability:

	Fair value		Carrying value	
	30 September 2014	31 December 2013	30 September 2014	31 December 2013
	AED'000	AED'000	AED'000	AED'000
Financial assets				
Investment securities	4,008,301	2,674,235	3,898,581	2,695,952

29 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:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes debt instruments on stock exchanges.

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

29 Fair value hierarchy (continued)

30 September 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	42,137	-	-	42,137
-Investment securities- equity	20,529	-	-	20,529
Foreign currency forwards	-	665	-	665
Interest rate swaps	-	4,799	-	4,799
	<u>62,666</u>	<u>5,464</u>	<u>-</u>	<u>68,130</u>
31 December 2013				
Available for sale financial assets				
- Investment securities – debt	42,268	-	-	42,268
-Investment securities- equity	-	-	-	-
Foreign currency forwards	-	375	-	375
	<u>42,268</u>	<u>375</u>	<u>-</u>	<u>42,643</u>

All the investments are quoted. There is no transfer between levels during the period, hence no level 3 reconciliation needed.

30 Debt security in issue

	30 September 2014 AED'000	31 December 2013 AED'000
USD 500 medium term note at discount	1,823,850	-
Less : Own investment in debt security issued	(160,499)	-
Less : Debt security issue costs	(9,542)	-
	<u>1,653,809</u>	<u>-</u>

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 LTD. 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.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2014 (continued)

31 Subsequent events

In the Ordinary General Assembly on 18 August 2014, the shareholders of the Bank approved acquisition of a majority stake in Ras Al Khaimah National Insurance Company PSC (RAKNIC) at a price of Dh3.64 per share.

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 Bank is awaiting regulatory approval to proceed with the share purchase offer to the shareholders of RAKNIC.