

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

**Report and financial statements  
for the year ended 31 December 2005**

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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 Annual Report of your bank for the year 2005. The performance during the year has been both impressive and consistent with the strategic initiatives rolled out in the last four years.

In addition to improving the various key performance indicators, the bank is also progressing well to achieve its internal goals which include increased revenues from non interest income, continued investment in technology and further emiritisation of the workforce.

### ***Financial Performance***

The net profit for 2005 was AED 185 million representing a 43% growth over 2004. While net interest income at AED 310 million registered an increase of 23%, fee, commission, income from foreign exchange and other income at AED 175 million grew by 52% in line with the bank's efforts to increase non-interest revenue.

Retail Banking remains the key business of the Bank and 2005 was another successful year with an increase in the customer base of all the products offered namely, retails loans, credit cards, mortgages, auto loans and investments. The Bank is one of the leading commercial providers of mortgages in Dubai and this is an area where we see considerable potential in the future. The restructuring of Corporate Banking into a new business banking unit focussing on middle market, commercial and small/medium enterprises was completed in 2005. This is expected to be an area of expansion for the Bank in the future. During the year two new branches were opened in the Emirates of Dubai and Abu Dhabi taking the total number of branches to 17. The Bank has introduced new delivery channels in the form of Kiosks, three of which were launched in Dubai during the year.

Total assets as at 31 December 2005 were AED 7.4 billion, a 41% increase from 2004 resulting mainly from a growth in loans and advances of AED 1.8 billion. The bank's investment portfolio is also being diversified and closed at AED 321 million compared to AED 151 million in December 2004. An improved yield on treasury assets was also achieved.

The growth in the asset book has been supported by a combination of increases in customer deposits, medium term bank borrowings and an increase in shareholders' equity. Customer deposits increased by AED 0.9 billion during the year 2005 through a healthy combination of increases in transaction accounts and fixed term deposits. The bank's has also launched a new SME unit that will focus on lending to small and medium businesses whilst also increasing transaction account balances.

The bank's inaugural Euro Medium Term Notes (EMTN) program was launched during the third quarter of 2005 and had received an extremely positive response from institutional investors in Europe, Asia and the Middle East. As a part of the MTN program the bank issued an initial tranche of USD 200 million (AED 735 million) in October 2005 by way of a 5 Year bond issue priced at 55 bp over the 6 month LIBOR.

The bank's capital adequacy ratio at the end of the year was 14%, against a minimum of 10 % prescribed by the UAE Central Bank.

RAKBANK has again remained in the forefront of Emiratisation achieving a national ratio in excess of 41% in 2005. The Bank has also invested in a modern Training Centre known as RAKacademy as part of our ongoing commitment to product and service quality training across our entire workforce. The high level of customer service quality achieved in the Bank resulted in the Bank being recognised as the leading retail bank in the UAE for service quality and one of the top three banks in the country.

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

### **Directors' report to the shareholders (continued)**

During 2005 the Bank's shares were listed on the Abu Dhabi Securities Market and the stock split on a 10 for 1 basis.

The Bank has made significant progress on meeting future Basel II requirements. We currently expect to be fully compliant with Basel II reporting requirements subject to the Central Bank's overview by 2006. During the year the Bank strengthened its internal risk management and BCP structures whilst to improve governance the audit overview function formerly undertaken by the Bank's Executive Committee was transferred to an independent Audit Committee.

#### **Rating**

The bank is currently rated by leading rating agencies and their current ratings are as follows:

<b>Rating Agency</b>	<b>Deposits</b>	<b>Financial Strength</b>	<b>Outlook</b>	<b>Support</b>
Moody's	Baa1 / P-2	D+	-	-
Fitch	BBB+/ F2	-	Stable	2
Capital Intelligence	BBB/A3	BBB	Stable	3

#### ***Dividend***

In view of the strong performance and considering the best interest of the Bank, the Directors have recommended a stock dividend of 30%. This will allow the Bank to increase its shareholders equity in support of future business expansion.

#### ***Outlook for 2006***

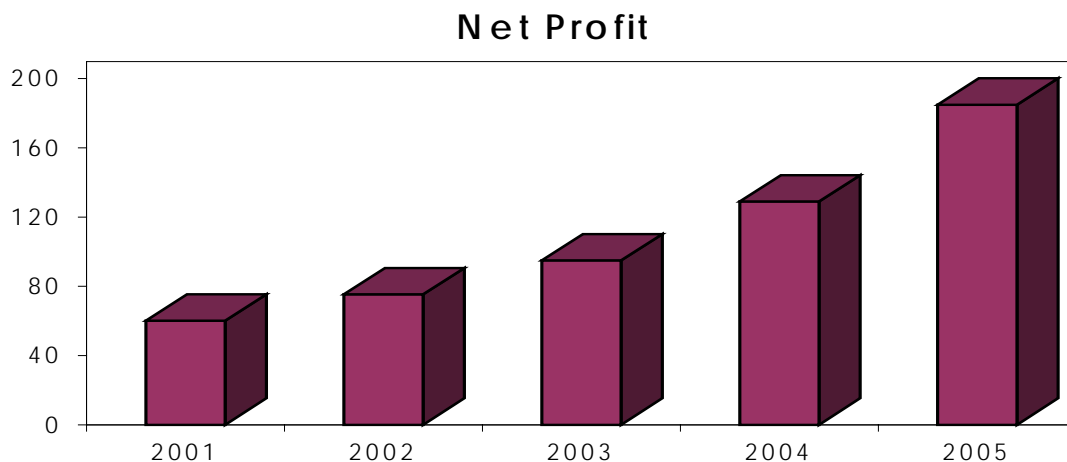
With the continuing strong oil prices and emphasis on diversification we expect the UAE economy to witness another year of solid growth in 2006. Performance in the banking sector is expected to remain strong. The Bank's retail strategy will be expanded in 2006 with emphasis on products tailored to our customers need, and on service quality. Delivery channels will be enhanced electronically as well as through the opening of new Branches and Kiosks.

We are grateful for the continued whole-hearted support of His Highness Sheikh Saqr bin Mohamed Al-Qasimi and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the bank for their outstanding performance during 2005 and the bank's customers for their continued support.

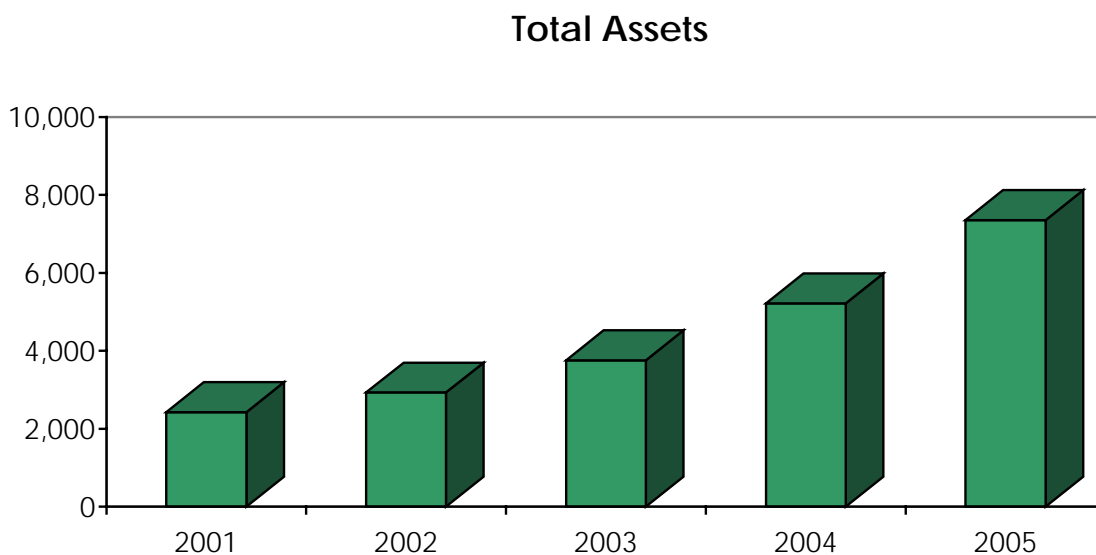
Board of Directors  
28 January 2006

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

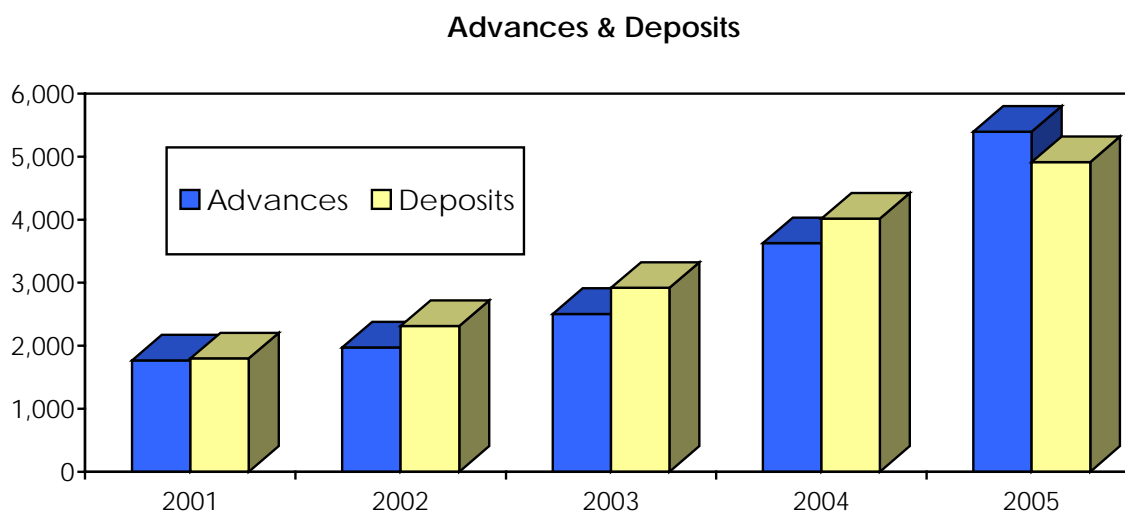
## Financial highlights



All figures shown are in millions of UAE Dirhams.



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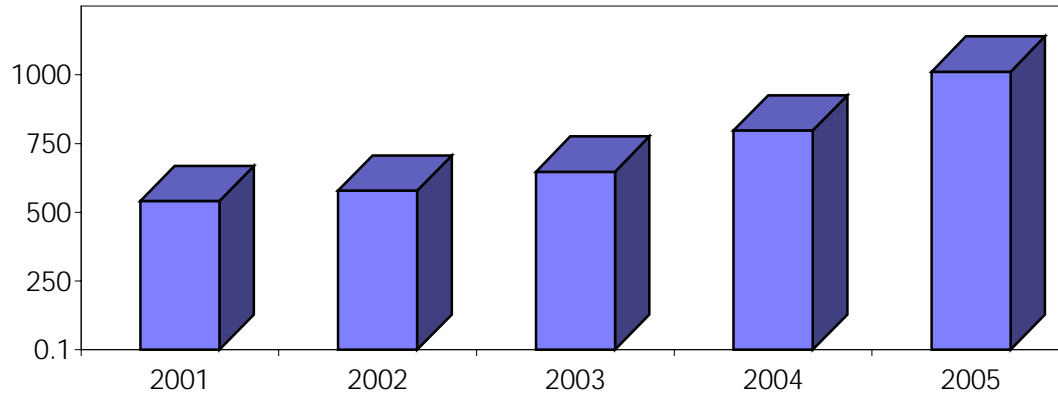


All figures shown are in millions of UAE Dirhams

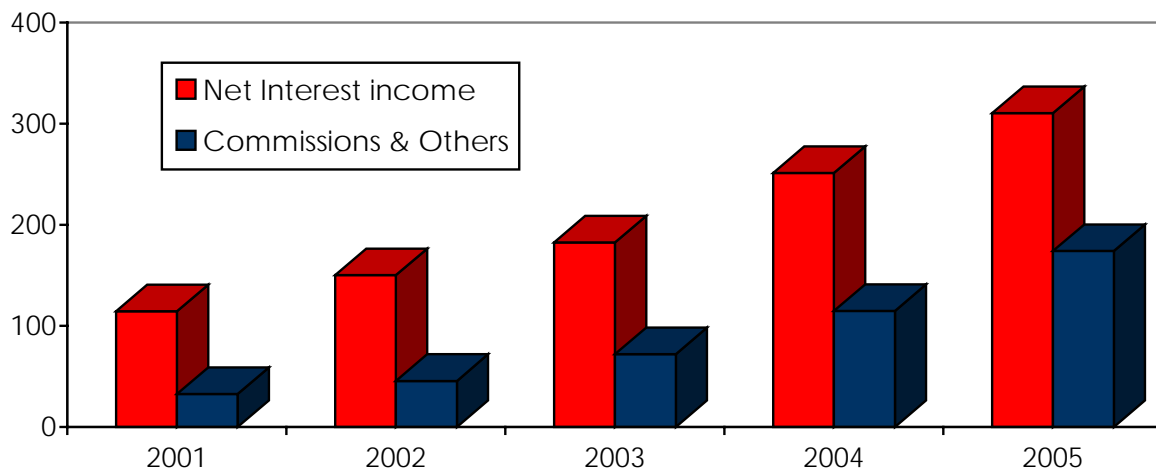
**Financial highlights** (continued)

All figures shown are in millions of UAE Dirhams.

**Shareholders' Equity**



**Income**



All figures shown are in millions of UAE Dirhams.

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

We have audited the accompanying balance sheet of The National Bank of Ras Al-Khaimah (P.S.C.) ("the bank") as at 31 December 2005 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the management of the bank. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, and the UAE Union Law No (10) of 1980, as amended.

Further, as required by the UAE Federal Law No (8) of 1984, as amended, we report that:

1. we have obtained all the information we considered necessary for the purpose of our audit;
2. the bank has maintained proper books of account and the financial statements are in agreement therewith;
3. the financial information included in the Directors' report is consistent with the books of account of the bank; and
4. nothing has come to our attention, which causes us to believe that the bank has breached any of the 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 2005.

PricewaterhouseCoopers  
28 January 2006

Amin H Nasser  
Registered Auditor Number 307

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

## Balance sheet at 31 December 2005

	Notes	2005 AED'000	2004 AED'000
<b>ASSETS</b>			
Cash and balances with the UAE Central Bank	4	563,044	818,226
Due from other banks	5	900,729	487,593
Loans and advances	6	5,392,800	3,625,773
Investment securities	7	321,150	150,935
Property and equipment	8	94,326	61,858
Other assets	9	73,969	71,758
<b>Total assets</b>		<b>7,346,018</b>	<b>5,216,143</b>
<b>LIABILITIES</b>			
Due to other banks	10	550,913	304,389
Due to customers	11	4,913,181	4,015,371
Debt security in issue	12	731,703	-
Other liabilities	13	125,272	87,643
Provision for employees' end of service benefits	14	11,361	9,707
<b>Total liabilities</b>		<b>6,332,430</b>	<b>4,417,110</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	15	412,500	343,750
Share premium	16	110,350	110,350
Retained earnings		175,959	127,558
Other reserves	17	314,779	217,375
<b>Total shareholders' equity</b>		<b>1,013,588</b>	<b>799,033</b>
<b>Total liabilities and shareholders' equity</b>		<b>7,346,018</b>	<b>5,216,143</b>

These financial statements were approved for issue by the Board of Directors on 28 January 2006 and were signed on its behalf by:

.....  
H.E. Sheikh Omar Bin Saqr Al-Qasimi  
Chairman

.....  
Graham Honeybill  
General Manager

The notes on pages 10 to 34 form an integral part of these financial statements.



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

### Statement of income for the year ended 31 December 2005

	Notes	2005 AED'000	2004 AED'000
Interest income	20	454,967	314,974
Interest expense	20	(144,553)	(63,733)
<b>Net interest income</b>		<u>310,414</u>	<u>251,241</u>
Fee and commission income	21	148,417	88,090
Foreign exchange income		10,728	7,379
Other operating income		14,973	19,315
<b>Operating income</b>		<u>484,532</u>	<u>366,025</u>
Operating expenses	22	(250,945)	(184,717)
Provision for impairment of loans and advances	6(d)	(48,332)	(52,080)
<b>Net profit for the year</b>		<u>185,255</u>	<u>129,228</u>
<b>Earnings per share</b>			
Basic	24	<u>AED 0.45</u>	<u>AED 0.31</u>

The notes on pages 10 to 34 form an integral part of these financial statements.

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

### Statement of changes in shareholders' equity for the year ended 31 December 2005

	Notes	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Total AED'000
<b>At 1 January 2004</b>		275,000	91,600	104,799	176,531	647,930
Net profit for the year		-	-	129,228	-	129,228
Transfer to legal reserve	17	-	-	(12,922)	12,922	-
Transfer to voluntary reserve	17	-	-	(12,922)	12,922	-
Transfer to general banking risk reserve	17	-	-	(5,000)	5,000	-
Transfer to credit risk reserve	17	-	-	(10,000)	10,000	-
Shares issued during the year		37,500	18,750	-	-	56,250
Issue of bonus shares	15	31,250	-	(31,250)	-	-
Dividend paid		-	-	(34,375)	-	(34,375)
<b>At 31 December 2004</b>		<u>343,750</u>	<u>110,350</u>	<u>127,558</u>	<u>217,375</u>	<u>799,033</u>
Net profit for the year		-	-	185,255	-	185,255
Transfer to legal reserve	17	-	-	(18,526)	18,526	-
Transfer to voluntary reserve	17	-	-	(14,578)	14,578	-
Transfer to credit risk reserve	17	-	-	(35,000)	35,000	-
Net change in available-for-sale investment securities	7,17	-	-	-	29,300	29,300
Issue of bonus shares	15	68,750	-	(68,750)	-	-
<b>At 31 December 2005</b>		<u><u>412,500</u></u>	<u><u>110,350</u></u>	<u><u>175,959</u></u>	<u><u>314,779</u></u>	<u><u>1,013,588</u></u>

The notes on pages 10 to 34 form an integral part of these financial statements.

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

### Statement of cash flows for the year ended 31 December 2005

	Notes	2005 AED'000	2004 AED'000
<b>Operating activities</b>			
Net profit for the year		185,255	129,228
Adjustments:			
Net charge for provision for impairment of loans and advances, excluding amounts identified and written off during the year	6(d)	45,479	47,147
Depreciation	22	15,491	12,547
Provision for employees' end of service benefits	14	4,037	2,788
Gain on disposal of property and equipment		(137)	(130)
Amortisation of discount	7	(130)	-
Gain on disposal of investment securities		(2,202)	(12,260)
Operating cash flows before changes in assets and liabilities and payment of employees' end of service benefits		247,793	179,320
Payment of employees' end of service benefits	14	(2,383)	(1,061)
Changes in assets and liabilities:			
Deposits with the UAE Central Bank	4,27	428,966	(136,791)
Due from other banks with maturities over 3 months	5,27	(36,729)	16,203
Loans and advances net of provisions and amounts written off	6	(1,812,506)	(1,170,339)
Other assets	9	(2,211)	(23,854)
Due to other banks	10	246,524	165,723
Due to customers	11	897,810	1,098,770
Other liabilities	13	37,629	43,758
Net cash provided by operating activities		4,893	171,729
<b>Investing activities</b>			
Purchase of investment securities	7	(156,835)	(84,884)
Proceeds from sale of investment securities		18,252	5,796
Purchase of property and equipment	8	(47,959)	(15,643)
Proceeds from sale of property and equipment		137	213
Proceeds from sale of investment property		-	7,910
Net cash used in investing activities		(186,405)	(86,608)
<b>Financing activities</b>			
Dividend paid		-	(34,375)
Proceeds from rights issue of shares		-	56,250
Debt security in issue	12	731,703	-
Net cash provided by financing activities		731,703	21,875
<b>Net increase in cash and cash equivalents</b>		550,191	106,996
Cash and cash equivalents, beginning of the year		606,230	499,234
Cash and cash equivalents, end of the year		1,156,421	606,230

The notes on pages 10 to 34 form an integral part of these financial statements.

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

## **Notes to the financial statements for the year ended 31 December 2005**

### **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”). The head office of the bank is located at the National Bank of Ras Al-Khaimah building, Oman Street, Al Nakheel, Ras Al-Khaimah.

The bank is engaged in providing commercial banking services through a network of seventeen branches in the UAE.

### **2 Significant accounting policies**

The principal accounting policies adopted in the preparation of these financial statements are set out below:

#### **(a) Basis of preparation**

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards, (IFRS). The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale financial assets, financial assets held at fair value through profit or loss and derivative financial instruments.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the bank’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

#### Interpretations and amendments to published standards effective in 2005

Management has assessed the relevance of the interpretation and amendments to published standards effective in 2005 with respect to the bank’s operations and concluded that they are not relevant to the bank except as noted below:

The bank has adopted revised IAS 39, “Financial Instruments: Recognition and Measurement effective 1 January 2005. Consequently, the bank has retrospectively designated its quoted originated debt securities amounting to AED 105,095,000 as held to maturity investment securities. The adoption of revised IAS 39 has not had any impact on shareholders’ equity.

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

#### 2 Significant accounting policies (continued)

##### (a) Basis of preparation (continued)

###### Standards, interpretations and amendments to published standards that are not yet effective

Certain applicable new standards, amendments and interpretations to existing standards have been published and are mandatory for accounting periods beginning on or after 1 January 2006 or later periods but which the bank has not early adopted, as follows:

- *IAS 19 (Amendment), Employee Benefits (effective from 1 January 2006)*. This amendment introduces the option of an alternative recognition approach for actuarial gains and losses.
- *IAS 39 (Amendment), The Fair Value Option (effective from 1 January 2006)*. This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category.
- *IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts (effective from 1 January 2006)*. This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value and subsequently measured at the higher of: (a) the unamortised balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the balance sheet date.
- *IFRS 7, Financial Instruments: Disclosures, and a complementary amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures (effective from 1 January 2007)*. IFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk.

Management has assessed the impact of the applicable new standards, interpretations and amendments, and their effect on future financial reporting is not likely to be material.

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

### **Notes to the financial statements for the year ended 31 December 2005 (continued)**

#### **2 Significant accounting policies (continued)**

##### **(b) Loans and advances and provision for impairment**

All loans and advances are recognised when cash is advanced to the borrowers. Loans and advances are initially recognized at fair value and subsequently carried at amortised cost using the effective interest method.

A provision for impairment is established if there is objective evidence that the bank will not be able to collect all amounts due. The amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate prevailing at inception of the loan or advance or at the current effective interest rate in respect of a variable rate loan.

The provision for loan impairment includes losses where there is objective evidence that probable losses are present in components of the loan portfolio at the balance sheet date. These have been estimated based upon historical patterns of losses in each component, the credit ratings allocated to the borrowers and the current economic climate in which the borrowers operate.

When a loan is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the statement of income. Subsequent recoveries are credited to the statement of income. 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 statement of income.

##### **(c) Investment securities**

The bank has classified its investment securities into the following categories: held-to-maturity; available-for-sale; and financial assets at fair value through profit or loss. Management determines the classification of its investments at initial recognition.

*Financial assets at fair value through profit or loss:* This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management.

*Held-to-maturity:* Investment securities with fixed maturity, fixed and determinable payments and where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity.

*Available-for-sale:* Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale.

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

#### 2 Significant accounting policies (continued)

##### (c) Investment securities (continued)

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Available-for-sale investment securities and financial assets at fair value through profit or loss are subsequently re-measured at fair value based on quoted bid prices. Fair values for unquoted equity instruments are estimated using the applicable price/earnings ratio refined to reflect the specific circumstances of the issuer. Gains and losses arising from changes in the fair value of “financial assets at fair value through profit or loss” are included in the statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognised in equity is recognized in profit or loss. Held-to-maturity investments are carried at amortised cost, less any provision for impairment. The amount of impairment is calculated as the difference between the asset’s carrying amount and the present value of expected future cash flows discounted at the original effective interest rate.

Interest earned whilst holding investment securities is reported as interest income.

All purchases and sales of investment securities are recognised at trade date, which is the date that the bank commits to purchase or sell the security.

Dividends are recognized in the statement of income when the bank’s right to receive payment is established.

##### (d) Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on 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
Computer equipment	4 - 10
Furniture, fixtures and equipment	4 - 5
Leasehold improvements	2 - 5
Motor vehicles	3 - 4

Land is not depreciated as it is deemed to have an infinite life.

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 reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of income when the expenditure is incurred.

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

### **Notes to the financial statements for the year ended 31 December 2005 (continued)**

#### **2 Significant accounting policies (continued)**

##### **(e) Employee benefits**

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.

A provision is made based on the full amount of end of service benefits due to the non-UAE national employees in accordance with the UAE Labour Law, for their years of service up to the balance sheet date.

Management uses the projected unit credit method to measure the employees' end of service benefits payable under the UAE Labour Law. Under this method an assessment is made of employee's expected service life with the bank and the expected basic salary at the date of leaving the service. The expected liability at the date of leaving the service is discounted to its net present value.

##### **(f) Provisions**

Provisions are recognised when the bank 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.

##### **(g) Debt security in issue**

Debt security in issue is recognised initially at fair value, net of transaction costs incurred. Debt security in issue is subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of income over the period of the debt security in issue, using the effective interest method.

##### **(h) Foreign currencies**

Items included in the financial statements of the bank are measured in UAE Dirhams which is the functional currency of the primary economic environment in which the bank operates.

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 Dirhams at the rates ruling at the balance sheet date. Any resultant gains or losses are accounted for in the statement of income.



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

### **Notes to the financial statements for the year ended 31 December 2005 (continued)**

#### **2 Significant accounting policies (continued)**

##### **(i) Interest income and expense**

Interest income and expense are recognised in the statement of income for all instruments measured at amortised cost using the effective interest method.

##### **(j) Fee and commission income**

Fee income charged to customers is recognized on an accrual basis when the underlying service has been provided.

Commission income earned from issue of documentary credits and letters of guarantee is recognised on a straight-line basis over the period for which the documentary credits and guarantees are issued.

##### **(k) Cash and cash equivalents**

For the purpose of the 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.

##### **(l) Fiduciary assets**

Assets and 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 financial statements.

##### **(m) Segmental reporting**

A segment is a distinguishable component of the bank that is engaged either in providing products or services (business segment) or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments. Segments whose revenues, results or assets are ten percent or more of the aggregate of all the segments are reported separately.

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

### **Notes to the financial statements for the year ended 31 December 2005 (continued)**

#### **3 Critical accounting estimates, and judgements in applying accounting policies**

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. 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.

##### *(a) Impairment losses on loans and advances*

The bank reviews its loan portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the bank 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 uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. 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.

##### *(b) Impairment of available-for-sale equity investments*

The bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. There has been no decline in the fair value of available for sale equity investments.

##### *(c) Held-to-maturity investments*

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the bank evaluates its intention and ability to hold such investments to maturity. If the bank fails to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – 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. If the entire class of held-to-maturity investments is tainted, there will be no material impact to the carrying amount of investments.

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

Notes to the financial statements for the year ended 31 December 2005 (continued)

### 4 Cash and balances with the UAE Central Bank

	2005 AED'000	2004 AED'000
Cash in hand	105,756	65,041
Current account with the UAE Central Bank	57,665	18,596
Statutory deposit with the UAE Central Bank	270,623	182,589
Certificates of deposit with the UAE Central Bank	129,000	552,000
	<u>563,044</u>	<u>818,226</u>

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

### 5 Due from other banks

	2005 AED'000	2004 AED'000
Placements with other banks	650,604	480,905
Demand deposits	250,125	6,688
	<u>900,729</u>	<u>487,593</u>

### 6 Loans and advances

#### 6(a) Loans and advances

Loans		5,025,390	3,256,048
Overdrafts		467,300	497,530
Loans against trust receipts		45,033	43,436
Bills discounted		23,920	7,547
Others		496	1,965
<b>Total loans and advances</b>	6 (b)	<u>5,562,139</u>	<u>3,806,526</u>
Provision for impairment	6 (c)	<u>(169,339)</u>	<u>(180,753)</u>
<b>Net loans and advances</b>		<u>5,392,800</u>	<u>3,625,773</u>

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

	2005 AED'000	2004 AED'000
<b>6(b) By economic sector</b>		
Personal loans and others	4,786,038	3,067,198
Manufacturing	215,301	167,915
Wholesale and retail trade	189,054	131,620
Services	140,819	116,949
Construction	105,650	123,746
Transport and communication	65,376	46,758
Financial institutions	33,671	14,166
Mining and quarrying	22,914	32,791
Government	3,316	105,383
	<u>5,562,139</u>	<u>3,806,526</u>
	<u><u>5,562,139</u></u>	<u><u>3,806,526</u></u>
<b>6(c) Provision for impairment</b>		
<b>Balance brought forward</b>	180,753	136,634
Net charge for provision for impairment	45,479	47,147
Written off during the year	(56,893)	(3,028)
	<u>169,339</u>	<u>180,753</u>
<b>Balance carried forward</b>	<u><u>169,339</u></u>	<u><u>180,753</u></u>

The provision for impairment comprises AED 110.3 million (2004: AED 121.8 million) set aside in respect of specific bad and doubtful loans and AED 59.0 million (2004: AED 59.0 million) to cover the risk inherent in the portfolio.

	2005 AED'000	2004 AED'000
<b>6(d) Net charge for the year</b>		
Net charge for provision for impairment	45,479	47,147
Write off during the year	2,853	4,933
	<u>48,332</u>	<u>52,080</u>
	<u><u>48,332</u></u>	<u><u>52,080</u></u>

### 6(e) Classified loans and advances

At 31 December 2005, the aggregate amount of non-performing loans amounted to AED 179.3 million (2004: AED 186.8 million). Provisions in relation to such loans amounted to AED 110.3 million as at 31 December 2005 (2004: AED 121.8 million).

At 31 December 2005 the aggregate amount of secured loans amounted to AED 2,108 million (2004: AED 1,167 million).

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

Notes to the financial statements for the year ended 31 December 2005 (continued)

### 7 Investment securities

	2005 AED'000	2004 AED'000
<b>Securities-available-for-sale</b>		
Quoted equity securities	39,400	16,050
Quoted debt securities	91,640	-
Unquoted debt securities	55,095	-
	<u>186,135</u>	<u>16,050</u>
<b>Securities held-to-maturity</b>		
Quoted debt securities	135,015	134,885
	<u>135,015</u>	<u>134,885</u>
<b>Total investment securities</b>	<u><u>321,150</u></u>	<u><u>150,935</u></u>

The movement in investment securities is summarized as follows:

	<b>Securities Available for Sale</b> AED'000	<b>Securities Held to Maturity</b> AED'000	<b>Total</b> AED'000
At 1 January 2005	16,050	134,885	150,935
Purchases	156,835	-	156,835
Disposals	(16,050)	-	(16,050)
Changes in fair value	29,300	-	29,300
Amortisation of discount	-	130	130
	<u>186,135</u>	<u>135,015</u>	<u>321,150</u>
At 31 December 2005	<u><u>186,135</u></u>	<u><u>135,015</u></u>	<u><u>321,150</u></u>

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

Notes to the financial statements for the year ended 31 December 2005 (continued)

### 8 Property and equipment

	Land and buildings AED'000	Leasehold improvements AED'000	Other assets AED'000	Total AED'000
<b>Cost</b>				
1 January 2005	37,162	15,389	59,566	112,117
Additions	22,460	5,434	20,065	47,959
Disposals/write off	(3)	(60)	(1,907)	(1,970)
31 December 2005	<u>59,619</u>	<u>20,763</u>	<u>77,724</u>	<u>158,106</u>
<b>Depreciation</b>				
1 January 2005	6,543	8,099	35,617	50,259
Charge for the year	871	2,733	11,887	15,491
Disposals/write off	(3)	(60)	(1,907)	(1,970)
31 December 2005	<u>7,411</u>	<u>10,772</u>	<u>45,597</u>	<u>63,780</u>
<b>Net book amount</b>				
31 December 2005	<u><u>52,208</u></u>	<u><u>9,991</u></u>	<u><u>32,127</u></u>	<u><u>94,326</u></u>
<b>Cost</b>				
1 January 2004	37,162	12,334	48,281	97,777
Additions	-	3,055	12,588	15,643
Disposals/write off	-	-	(1,303)	(1,303)
31 December 2004	<u>37,162</u>	<u>15,389</u>	<u>59,566</u>	<u>112,117</u>
<b>Depreciation</b>				
1 January 2004	5,661	6,154	27,117	38,932
Charge for the year	882	1,945	9,720	12,547
Disposals/write off	-	-	(1,220)	(1,220)
31 December 2004	<u>6,543</u>	<u>8,099</u>	<u>35,617</u>	<u>50,259</u>
<b>Net book amount</b>				
31 December 2004	<u><u>30,619</u></u>	<u><u>7,290</u></u>	<u><u>23,949</u></u>	<u><u>61,858</u></u>

Included in land and buildings is land costing AED 46.51 million (2004: AED 24.05 million).

Other assets include computer equipments, furniture fixtures and equipments and motor vehicles.

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

	2005 AED'000	2004 AED'000
<b>9 Other assets</b>		
Cheques held for collection	44,011	29,236
Prepayments and deposits	12,012	9,564
Others	17,946	32,958
	<u>73,969</u>	<u>71,758</u>
	<u><u>73,969</u></u>	<u><u>71,758</u></u>
<b>10 Due to other banks</b>		
Term deposits	548,825	291,825
Demand deposits	2,088	12,564
	<u>550,913</u>	<u>304,389</u>
	<u><u>550,913</u></u>	<u><u>304,389</u></u>
<b>11 Due to customers</b>		
Time deposits	3,127,781	2,738,530
Savings deposits	200,006	181,621
Call deposits	424,052	205,715
Current accounts	1,161,342	889,505
	<u>4,913,181</u>	<u>4,015,371</u>
	<u><u>4,913,181</u></u>	<u><u>4,015,371</u></u>
<p>There is no significant concentration of customer deposits.</p>		
<b>12 Debt security in issue</b>		
US\$ medium-term note	734,600	-
Less: debt security issue costs	(2,897)	-
	<u>731,703</u>	<u>-</u>
	<u><u>731,703</u></u>	<u><u>-</u></u>

The bank has established a Medium Term Note Program for US\$ 500 million, of which USD 200 million was issued in October 2005. The notes mature in 2010 and carry an interest rate of six months Libor + 0.55% per annum.

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

#### 13 Other liabilities

	2005 AED'000	2004 AED'000
Managers cheques issued	39,036	25,184
Accrued expenses	20,944	14,573
Others	65,292	47,886
	<u>125,272</u>	<u>87,643</u>

#### 14 Provision for employees' end of service benefits

	2005 AED'000	2004 AED'000
At 1 January	9,707	7,980
Charge for the year (Note 23)	4,037	2,788
Payment during the year	(2,383)	(1,061)
	<u>11,361</u>	<u>9,707</u>

#### 15 Share capital

The authorised, issued and fully paid share capital of the bank comprises 412.5 million shares of AED 1 each (2004: 34.375 million shares of AED 10 each).

At the meeting of the shareholders held on 2 April 2005 the following were approved:

- a stock dividend (issue of bonus shares) for 2004 at 20% of the issued and paid up capital amounting to AED 68.75 million (2003: AED 31.25 million).
- a stock split by issue of 10 paid up shares of AED 1 each for every issued and paid up share of AED 10.

#### 16 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 a part of the legal reserve of the bank and is not available for distribution.



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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

#### 17 Other reserves

	Legal reserve AED'000	Voluntary reserve AED'000	General banking risk reserve AED'000	Credit risk reserve AED'000	Fair value reserve AED'000	Total AED'000
<b>At 1 January 2004</b>	71,531	55,000	45,000	5,000	-	176,531
Additions during the year	12,922	12,922	5,000	10,000	-	40,844
<b>At 31 December 2004</b>	84,453	67,922	50,000	15,000	-	217,375
Additions during the year	18,526	14,578	-	35,000	29,300	97,404
<b>At 31 December 2005</b>	102,979	82,500	50,000	50,000	29,300	314,779

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 reserve to address the risks inherent in the bank's operating environment. Contributions to this reserve are made at the discretion of the Directors.

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.

#### 18 Contingencies and commitments

	2005 AED'000	2004 AED'000
Guarantees	491,266	650,514
Letters of credit	75,748	161,175
Acceptances	25,753	31,587
Commitments to extend credit	564,421	493,189
Other	1,449	1,841
	<u>1,158,637</u>	<u>1,338,306</u>

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

#### 18 Contingencies and commitments (continued)

Guarantees, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans.

Letters of credit are written undertakings by the bank 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 are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

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. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

#### 19 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 bank's undelivered spot transactions.

The bank has entered into the following forward exchange transactions.

	Contract amount AED'000	Fair value AED'000
31 December 2005	117,146	(35)
31 December 2004	9,809	(69)

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

	2005 AED'000	2004 AED'000
<b>20 Interest income and expense</b>		
<b>Interest income</b>		
Personal loans	178,562	147,843
Credit cards	91,039	58,148
Commercial loans and overdrafts	84,056	49,043
Auto loans	67,248	43,022
Other banks	21,742	2,986
Deposits with the UAE Central Bank	8,123	9,499
Others	4,197	4,433
	<u>454,967</u>	<u>314,974</u>
<b>Interest expense</b>		
Due to customers	120,460	57,137
Borrowings from other banks	24,093	6,596
	<u>144,553</u>	<u>63,733</u>
<b>21 Fee and commission income</b>		
Fees and commissions	118,239	64,680
Documentary credits and guarantees	5,650	6,190
Transfers	1,471	1,020
Others	23,057	16,200
	<u>148,417</u>	<u>88,090</u>
<b>22 Operating expenses</b>		
Staff costs (Note 23)	109,247	78,906
Marketing expenses	21,088	18,098
Occupancy costs	15,110	9,353
Depreciation (Note 8)	15,491	12,547
Services	18,501	13,135
Computer expenses	5,196	4,088
Commission and rebates	12,296	7,173
Legal and consultancy fees	8,560	8,890
Others	45,456	32,527
	<u>250,945</u>	<u>184,717</u>

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

	2005 AED'000	2004 AED'000
<b>23 Staff costs</b>		
Salaries and allowances	98,636	69,742
Pension	2,145	1,942
End of service benefits (Note 14)	4,037	2,788
Staff training	863	856
Others	3,566	3,578
	<u>109,247</u>	<u>78,906</u>
Number of employees at 31 December	<u>723</u>	<u>554</u>

### 24 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. In accordance with IAS 33 "Earnings Per Share", the impact of bonus shares issued and the share split have been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

	2005	2004
Net profit for the year in AED	185,254,586	129,227,998
Weighted average number of shares in issue	412,500,000	410,950,000
Basic earnings per share in AED	0.45	0.31

There were no potentially dilutive shares as at 31 December 2005 and 31 December 2004.

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

#### 25 Dividends

At the meeting held on 28 January 2006, the Board of Directors proposed a stock dividend (issue of bonus shares) at 30 % of the issued and paid up capital amounting to AED 124 million in respect of the year 2005 (2004: AED 68.75 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 in the year ending 31 December 2006 after it has been approved by the shareholders.

#### 26 Related party transactions and balances

Related parties comprise key management, businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. During the year, the bank entered into the following significant transactions with related parties in the ordinary course of business.

	2005 AED'000	2004 AED'000
Loans and advances at 31 December	34,347	128,258
Due to customers at 31 December	404,628	460,058
Interest income for the year	1,749	3,620
Interest expense for the year	4,012	6,749
Commission income	170	287
Directors' remuneration	860	700
Remuneration payable to key management personnel	7,006	5,653
Irrevocable commitments and contingent liabilities at 31 December	39,687	62,759

#### 27 Cash and cash equivalents

	2005 AED'000	2004 AED'000
Cash (Note 4)	105,756	65,041
Current account with the UAE Central Bank (Note 4)	57,665	18,596
Certificates of deposit with the UAE Central Bank (Note 4)	129,000	35,000
Due from other banks	864,000	487,593

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

Notes to the financial statements for the year ended 31 December 2005 (continued)

### 28 Business segments

The bank is organised into three main business segments:

Retail banking - incorporating private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages.

Corporate banking - incorporating transactions with corporate bodies including government and public bodies and comprising of loans, advances, deposits and trade finance transactions.

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.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the balance sheet items.

#### Primary segment information

	<b>Retail banking</b> AED'000	<b>Corporate banking</b> AED'000	<b>Treasury and others</b> AED'000	<b>Eliminations</b> AED'000	<b>Total</b> AED'000
<b>31 December 2005</b>					
External revenue	559,856	25,353	43,876	-	629,085
Revenues from other segments	55,729	35,795	55,436	(146,960)	-
Total revenues	<u>615,585</u>	<u>61,148</u>	<u>99,312</u>	<u>(146,960)</u>	<u>629,085</u>
Segment result	179,841	14,842	30,626	-	225,309
Unallocated costs	-	-	-	-	(40,054)
<b>Net profit for the year</b>					<u><u>185,255</u></u>
Segment assets	5,276,735	287,006	1,645,626	-	7,209,367
Unallocated assets	-	-	-	-	136,651
<b>Total assets</b>					<u><u>7,346,018</u></u>
Segment liabilities	3,602,718	909,508	1,731,586	-	6,243,812
Unallocated liabilities					88,618
<b>Total liabilities</b>					<u><u>6,332,430</u></u>

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

Notes to the financial statements for the year ended 31 December 2005 (continued)

### 28 Business segments (continued)

#### Primary segment information

	<b>Retail banking</b>	<b>Corporate banking</b>	<b>Treasury and others</b>	<b>Elimination s</b>	<b>Total</b>
	AED'000	AED'000	AED'000	AED'000	AED'000
<b>31 December 2004</b>					
External revenue	365,369	31,432	32,957	-	429,758
Revenues from other segments	22,706	12,168	26,753	(61,627)	-
<b>Total revenues</b>	<u>388,075</u>	<u>43,600</u>	<u>59,710</u>	<u>(61,627)</u>	<u>429,758</u>
Segment result	137,284	(1,521)	15,043	-	150,806
Unallocated costs	-	-	-	-	(21,578)
<b>Net profit for the year</b>					<u>129,228</u>
Segment assets	3,370,577	421,345	1,386,919	-	5,178,841
Unallocated assets	-	-	-	-	37,302
<b>Total assets</b>					<u>5,216,143</u>
Segment liabilities	2,713,385	859,292	794,093	-	4,366,770
Unallocated liabilities					50,340
<b>Total liabilities</b>					<u>4,417,110</u>

### 29 Geographical concentration of assets and liabilities

	<b>Total assets</b>	<b>Total liabilities</b>	<b>Off balance sheet items</b>
	AED'000	AED'000	AED'000
<b>At 31 December 2005</b>			
Within UAE	6,773,228	5,196,801	1,072,764
OECD countries	450,476	887,367	84,649
Others	122,314	248,262	1,224
	<u>7,346,018</u>	<u>6,332,430</u>	<u>1,158,637</u>
<b>At 31 December 2004</b>			
Within UAE	4,928,670	4,168,170	1,107,740
OECD countries	198,103	127,610	200,978
Others	89,370	121,330	29,588
	<u>5,216,143</u>	<u>4,417,110</u>	<u>1,338,306</u>

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

Notes to the financial statements for the year ended 31 December 2005 (continued)

### 30 Currency risk

#### Concentration of assets and liabilities by currency:

<b>At 31 December 2005</b>	<b>AED</b>	<b>USD</b>	<b>Others</b>	<b>Total</b>
	AED'000	AED'000	AED'000	AED'000
<b>Assets</b>				
Cash and balances with the UAE				
Central Bank	475,984	87,055	5	563,044
Due from other banks	662	829,868	70,199	900,729
Loans and advances	5,293,116	68,461	31,223	5,392,800
Investment securities	119,319	201,831	-	321,150
Property and equipment and other assets	108,053	44,573	15,669	168,295
<b>Total assets</b>	<u>5,997,134</u>	<u>1,231,788</u>	<u>117,096</u>	<u>7,346,018</u>
<b>Liabilities</b>				
Due to other banks	459,022	91,825	66	550,913
Due to customers	4,214,712	586,364	112,105	4,913,181
Debt security in issue	-	731,703	-	731,703
Other liabilities and provision for employees' end of service benefits	132,962	3,671	-	136,633
<b>Total liabilities</b>	<u>4,806,696</u>	<u>1,413,563</u>	<u>112,171</u>	<u>6,332,430</u>
<b>Net balance sheet position</b>	<u>1,190,438</u>	<u>(181,775)</u>	<u>4,925</u>	<u>1,013,588</u>
<b>At 31 December 2004</b>				
Total assets	<u>4,688,999</u>	<u>468,985</u>	<u>58,159</u>	<u>5,216,143</u>
Total liabilities	<u>3,872,613</u>	<u>492,496</u>	<u>52,001</u>	<u>4,417,110</u>
Net balance sheet position	<u>816,386</u>	<u>(23,511)</u>	<u>6,158</u>	<u>799,033</u>



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

## Notes to the financial statements for the year ended 31 December 2005 (continued)

### 31 Interest rate risk

#### Interest sensitivity of assets and liabilities

The bank 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 bank's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Less than 3 months AED'000	From 3 months to 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Non- interest bearing AED'000	Total AED'000	Effective interest rate %
<b>At 31 December 2005</b>							
<b>Assets</b>							
Cash and balances with the UAE Central Bank	129,000	-	-	-	434,044	563,044	4.61
Due from other banks	650,604	-	-	-	250,125	900,729	4.13
Loans and advances	1,354,658	1,758,616	1,589,808	636,583	53,135	5,392,800	9.08
Investment securities	55,096	226,654	-	-	39,400	321,150	4.19
Property and equipment and other assets	-	-	-	-	168,295	168,295	-
<b>Total</b>	<u>2,189,358</u>	<u>1,985,270</u>	<u>1,589,808</u>	<u>636,583</u>	<u>944,999</u>	<u>7,346,018</u>	
<b>Liabilities and shareholders' equity</b>							
Due to other banks	457,000	91,825	-	-	2,088	550,913	5.35
Due to customers	3,203,792	703,364	24,710	-	981,315	4,913,181	2.97
Debt security in issue	-	731,703	-	-	-	731,703	4.84
Other liabilities and provision for employees' end of service benefits	-	-	-	-	136,633	136,633	-
Shareholders' equity	-	-	-	-	1,013,588	1,013,588	-
<b>Total</b>	<u>3,660,792</u>	<u>1,526,892</u>	<u>24,710</u>	<u>-</u>	<u>2,133,624</u>	<u>7,346,018</u>	
<b>Interest rate sensitivity gap</b>	<u>(1,471,434)</u>	<u>458,378</u>	<u>1,565,098</u>	<u>636,583</u>	<u>(1,188,625)</u>	<u>-</u>	

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

#### 31 Interest rate risk (continued)

	Less than 3 months AED'000	From 3 months to 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Non- interest bearing AED'000	Total AED'000	Effective interest rate %
<b>At 31 December 2004</b>							
<b>Assets</b>							
Cash and balances with the UAE Central Bank	137,000	415,000	-	-	266,226	818,226	1.63
Due from other banks	480,905	-	-	-	6,688	487,593	2.26
Loans and advances	1,074,780	575,115	1,967,520	-	8,358	3,625,773	9.49
Investment securities	36,730	98,155	-	-	16,050	150,935	3.06
Property and equipment and other assets	-	-	-	-	133,616	133,616	-
<b>Total</b>	<u>1,729,415</u>	<u>1,088,270</u>	<u>1,967,520</u>	<u>-</u>	<u>430,938</u>	<u>5,216,143</u>	-
<b>Liabilities and shareholders' equity</b>							
Due to other banks	-	291,825	-	-	12,564	304,389	3.07
Due to customers	1,957,577	1,308,044	46,056	-	703,694	4,015,371	2.04
Debt security in issue	-	-	-	-	-	-	-
Other liabilities and provision for employees' end of service benefits	-	-	-	-	97,350	97,350	-
Shareholders' equity	-	-	-	-	799,033	799,033	-
<b>Total</b>	<u>1,957,577</u>	<u>1,599,869</u>	<u>46,056</u>	<u>-</u>	<u>1,612,641</u>	<u>5,216,143</u>	-
<b>Interest rate sensitivity gap</b>	<u>(228,162)</u>	<u>(511,599)</u>	<u>1,921,464</u>	<u>-</u>	<u>(1,181,703)</u>	<u>-</u>	

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

### Notes to the financial statements for the year ended 31 December 2005 (continued)

#### 32 Assets and liabilities maturity profile

	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Total AED'000
<b>At 31 December 2005</b>					
<b>Assets</b>					
Cash and balances with the UAE					
Central Bank	563,044	-	-	-	563,044
Due from other banks	900,729	-	-	-	900,729
Loans and advances	1,378,678	840,591	1,972,176	1,201,355	5,392,800
Investment securities	-	39,400	226,654	55,096	321,150
Property and equipment, and other assets	65,457	7,387	19,041	76,410	168,295
<b>Total</b>	<b>2,907,908</b>	<b>887,378</b>	<b>2,217,871</b>	<b>1,332,861</b>	<b>7,346,018</b>
<b>Liabilities and shareholders' equity</b>					
Due to other banks	259,088	191,825	100,000	-	550,913
Due to customers	4,185,107	703,364	24,710	-	4,913,181
Debt security in issue	-	-	731,703	-	731,703
Other liabilities and provision for employees' end of service benefits	125,272	-	-	11,361	136,633
Shareholders' equity				1,013,588	1,013,588
<b>Total</b>	<b>4,569,467</b>	<b>895,189</b>	<b>856,413</b>	<b>1,024,949</b>	<b>7,346,018</b>
Net liquidity gap	(1,661,559)	(7,811)	1,361,458	307,912	-
<b>At 31 December 2004</b>					
Total assets	2,017,130	982,309	804,376	1,412,328	5,216,143
Total liabilities and equity	2,761,478	1,308,044	347,588	799,033	5,216,143
Net liquidity gap	(744,348)	(325,735)	456,788	613,295	

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

### **Notes to the financial statements for the year ended 31 December 2005 (continued)**

#### **32 Assets and liabilities maturity profile (continued)**

##### **Net liquidity gap**

The above table analyses assets and liabilities of the bank into relevant maturity groupings based on the remaining year from the balance sheet date to the contractual maturity date.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the bank. It is unusual for banks ever to be completely matched since business transacted is often of uncertain term and of different types. An unmatched position potentially enhances profitability, but can also increase the risk of losses.

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 bank and its exposure to changes in interest rates and exchange rates.

#### **33 Fiduciary activities**

The bank holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2005, such assets amounted to AED 182.6 million (2004: AED 87.6 million) and are excluded from the financial statements of the bank.

#### **34 Fair values**

At 31 December 2005 and 31 December 2004, the fair value of the bank's financial assets and liabilities approximate their net carrying amounts as disclosed in these financial statements.