

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

**Directors' report and financial statements
for the year ended 31 December 2012**

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

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Directors' Report to the Shareholders

Management Discussion and Analysis

We are pleased to present the results of your Bank for the financial year ended 31st December 2012. Net profit for the year amounted to AED1,402.8 million, an increase of 16.6% over the previous year.

The Bank has again reported double digit growth year on year by continuing to pursue a successful strategy towards the business and personal finance segments supported as always by superior customer service.

2012 was a very successful year for RAKBANK. In addition to successfully launching a major new initiative, the core banking system, 2012 also witnessed the preparation for the launch of RAKBANK's Islamic Banking Window. With these achievements and others it was no surprise that RAKBANK was voted Bank of the Year in 2012 by an independent jury during the Arabian Business Achievement Awards.

Financial Performance

The net profit for 2012 was AED1,402.8 million compared to AED1,203.5 million for the previous year. Net interest income increased in 2012 to AED 2,233 million. This was mainly the result of a 10.4% growth in loans and advances which at the year-end stood at AED20.3 billion.

Fee income for 2012 exceeded 2011 levels despite the tariff restrictions imposed by the U.A.E. Central Bank in May 2011. Total revenue in this segment from credit cards, foreign exchange and various transaction fees increased by 9.7% to AED2.9 billion.

The Bank has continued to apply a conservative strategy to loan underwriting and provisioning. As a result, credit losses were 30% lower in 2012 than 2011 whilst the ratio of non-performing loans to gross loans remain a steady 2.5%.

Customer deposits grew by 13.3% to AED20.7 billion. This together with retained profit was sufficient to support the growth in loans investment and repayment of the AED684 million which had been received from the Ministry of Finance as part of the facility to provide liquidity support to banks operating in the U.A.E. This amount was eligible as Tier 2 capital in line with the agreement dated 31st December 2009. The Bank has no immediate plans to seek longer term finance to support its liquidity or capital

Operating costs increased by 13% as the bank expanded its branch and ATM network throughout 2012 by adding a Branch in Sharjah and another in Abu Dhabi. A further 50 ATMs were established around the country bringing the total in operation throughout the U.A.E. to 200. The Bank also launched 3 dedicated SME Banking Centers to ensure a convenient banking presence where small and medium sized companies are located. Also the Bank continue to invest in online media channels including online banking, mobile banking and RAKBANK Direct as well as RAKBANK Deals.

RAKBANK

Simply Better

Beside its online innovations RAKBANK is committed to taking advantage of opportunities in the marketplace that grow its customer base. Following the launch of the new core banking system the Bank started work on its Islamic Bank offering through a separate Islamic Window RAKBANK Amal in order to take advantage of the growing local demand for Islamic Finance. The Islamic Banking was successfully launched on 19th January 2013. We are well placed to bring our trendsetting products, online solutions and award winning customer service into the local Islamic Banking market. This will enable the Bank to attract to its counters a customer segment it was previously unable to market.

The regulatory liquidity ratio at the end of the year was 20% compared to 19% at the end of 2011. RAKBANK is well positioned to comply with the new liquidity rules as and when they become effective. The Bank's tier 1 ratio as per Basel II was 28.78% at the year-end as against a requirement of 12% set by the U.A.E. Central Bank. We consider that this level of capital provides the Bank with ample room for growth during 2013.

Ratings

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

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

We are pleased to note that all of our ratings carry a stable outlook.

Dividend

The Directors, at the board meeting held on 27th January 2013 have recommended a stock dividend of 10% and a cash dividend of 40%. The Directors consider that the Bank is well placed to meet the continuing challenges which will be faced during 2013. The dividend recommendations will result in 56.5% of net profit being retained within the Bank's shareholders equity thereby increasing capital and reserves to strengthen the Bank's overall position and provide support for future growth.

The Directors propose to increase the general banking risk reserve by AED 200 million, credit risk reserve by AED200 million, and the newly formed regulatory credit risk reserve by AED 15 million to align it at 1.5% of Bank's total credit risk weighted assets. These measures will increase the Bank's shareholders' equity to AED5.1 billion after payment of the proposed cash dividend. A detailed appropriation schedule is provided in note 18 to the financial statements.

Outlook for 2013

The Bank operates exclusively within the UAE and hence its fortunes are tied closely to the economic wellbeing of the nation. RAKBANK is one of the country's leading retail and small business bank, segments which benefit from economic growth. In 2013 the Bank will continue to diversify and grow its increasingly important S.M.E. business, with targeted services, products, and distribution points increasing geared towards this important business segment. We shall remain at the forefront on-line product and service distribution, with further enhancements in our mobile banking operations.

RAKBANK is well positioned to take advantage of positive developments during the forthcoming year. Our infrastructure has been significantly improved with the introduction of a new core banking system. We have a wide range of conventional and Islamic Products and Services, strong capital and liquidity basis and very importantly a high service standard culture which is the trademark of your bank. I am confident that RAKBANK will leverage on all of the above to deliver a strong result in 2013.

We are grateful for the continued whole-hearted support of His Highness Sheikh Saud bin Saqr Al-Qasimi, Member of the Supreme Council and Ruler of Ras Al Khaimah and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the Bank for their outstanding performance during 2012 and the Bank's customers for their continued support.

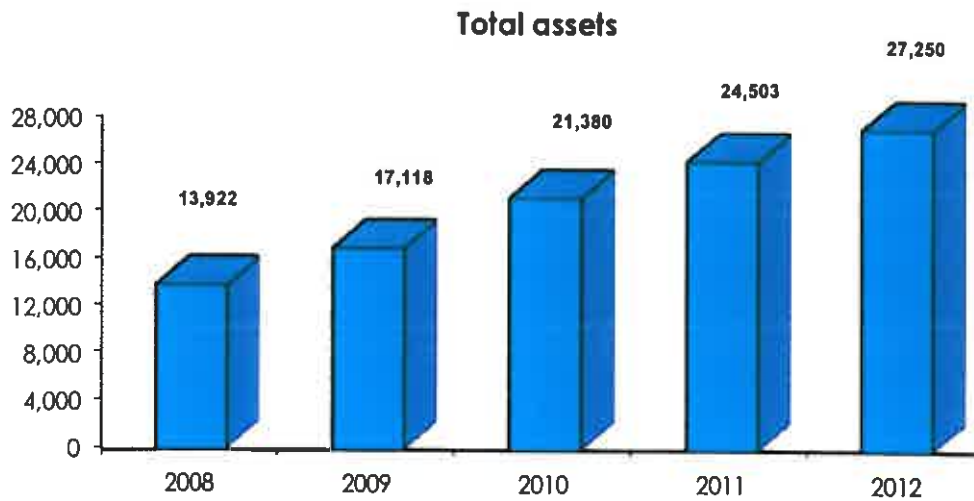
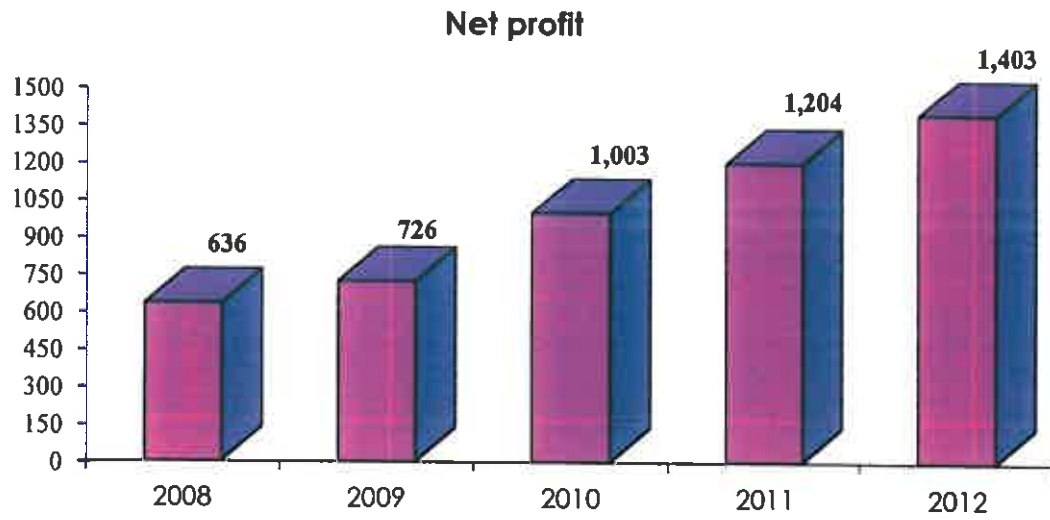


H.E. Sheikh Omar Bin Saqr Al-Qasimi
Chairman
For and on behalf of Board of Directors
27th January 2013

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

Financial highlights

All figures shown are in millions of UAE Dirhams.

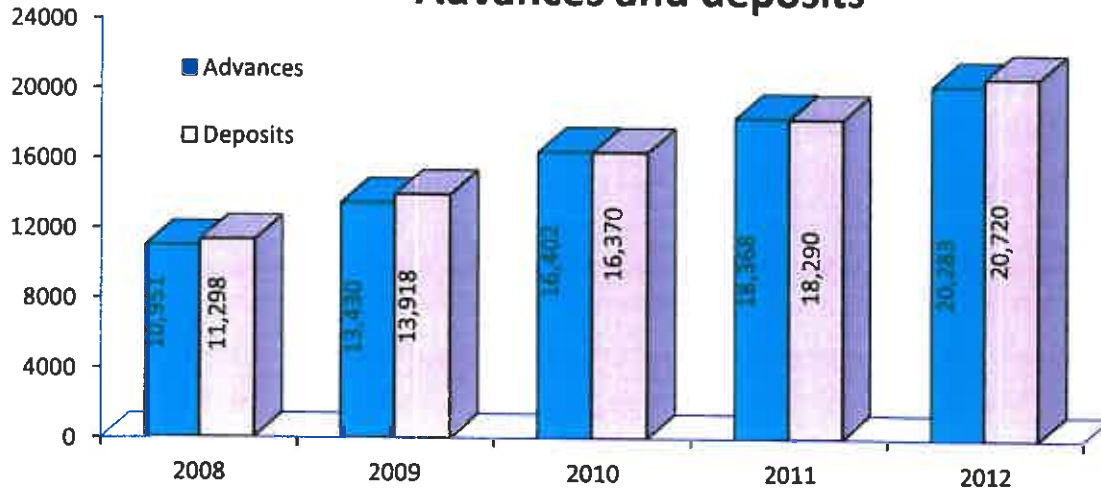


The National Bank of Ras Al-Khaimah (P.S.C.)

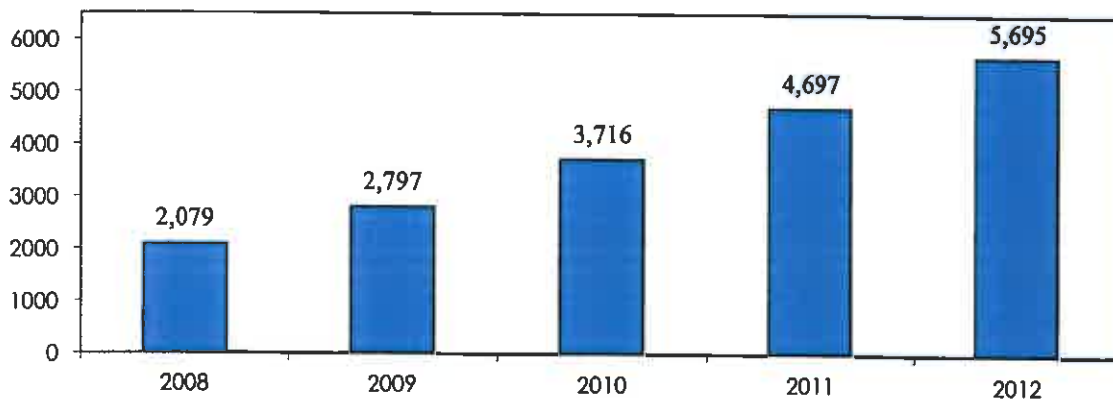
Financial highlights (continued)

All figures shown are in millions of UAE Dirhams.

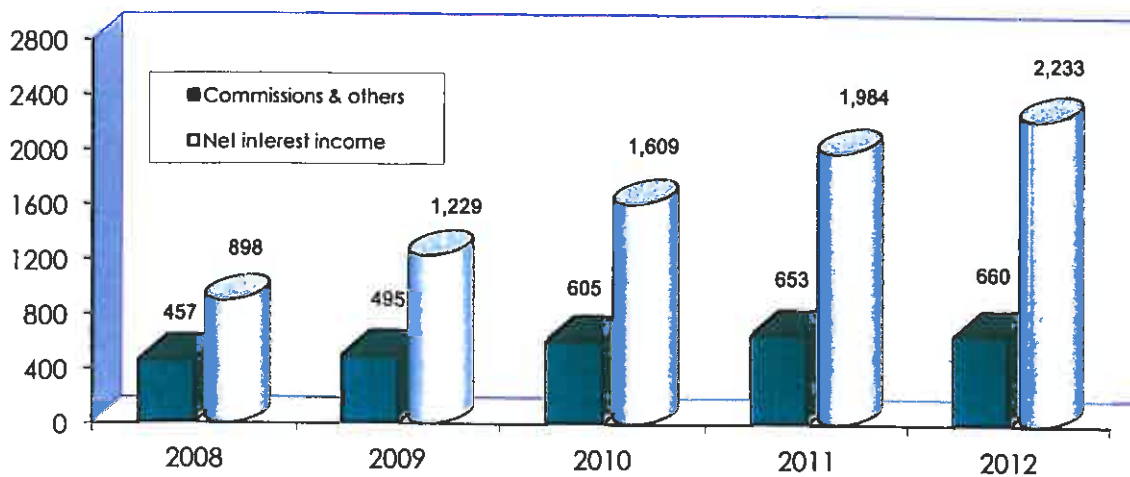
Advances and deposits



Shareholders' equity



Income





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

Report on the financial statements

We have audited the accompanying financial statements of The National Bank of Ras Al-Khaimah (P.S.C.) ("the bank"), which comprise the balance sheet as of 31 December 2012 and the statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2012 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

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

- (i) we have obtained all the information we considered necessary for the purpose of our audit;
- (ii) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended and the Articles of Association of the bank;
- (iii) the bank has maintained proper books of account and the financial statements are in agreement therewith;
- (iv) the financial information included in the Directors' report is consistent with the books of account of the bank; and
- (v) nothing has come to our attention, which causes us to believe that the bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2012.

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

PricewaterhouseCoopers
27 January 2013

A handwritten signature in blue ink, appearing to read 'Paul Suddaby', with a horizontal line underneath.

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

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

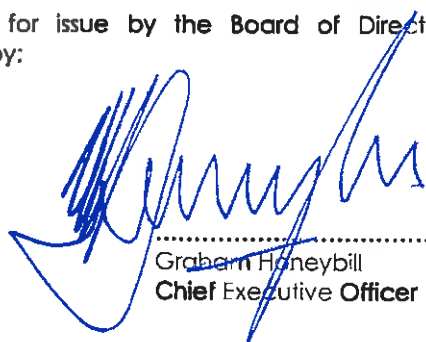
Balance sheet

	Note	At 31 December	
		2012 AED'000	2011 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	5	2,904,054	1,844,193
Due from other banks	6	1,195,831	1,972,251
Loans and advances	7	20,283,427	18,368,470
Investment securities	8	1,586,878	1,163,813
Property and equipment	9	1,035,773	952,167
Other assets	10	244,174	201,643
Total assets		27,250,137	24,502,537
LIABILITIES			
Due to other banks	11	233,841	334,471
Due to customers	12	20,719,725	18,290,165
Subordinated debt	13	-	684,467
Other liabilities	14	539,914	443,495
Provision for employees' end of service benefits	15	61,442	53,067
Total liabilities		21,554,922	19,805,665
SHAREHOLDERS' EQUITY			
Share capital	16	1,523,859	1,385,327
Share premium	17	110,350	110,350
Retained earnings		1,183,109	1,157,426
Other reserves	18	2,877,897	2,043,769
Total shareholders' equity		5,695,215	4,696,872
Total liabilities and shareholders' equity		27,250,137	24,502,537

These financial statements were authorised for issue by the Board of Directors on 27 January 2013 and were signed on its behalf by:



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



.....
Graham Honeybill
Chief Executive Officer

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

Statement of income

	Note	Year ended 31 December	
		2012 AED'000	2011 AED'000
Interest income	21	2,583,850	2,365,550
Interest expense	21	(350,562)	(381,039)
Net interest income		<u>2,233,288</u>	<u>1,984,511</u>
Fee and commission income	22	488,174	522,754
Foreign exchange income		67,634	57,771
Income from investment securities	8(c)	71,541	49,315
Other operating income		32,527	23,104
Operating income		<u>2,893,164</u>	<u>2,637,455</u>
Operating expenses	23	(1,281,250)	(1,132,897)
Impairment charge on loans and advances net of write backs	7(d)	(209,115)	(301,018)
Net profit for the year		<u><u>1,402,799</u></u>	<u><u>1,203,540</u></u>
Earnings per share			
Basic	25	<u><u>AED 0.92</u></u>	<u><u>AED 0.79</u></u>

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

Statement of comprehensive income

	Note	Year ended 31 December	
		2012 AED'000	2011 AED'000
Net profit for the year		1,402,799	1,203,540
Other comprehensive income:			
Net changes in fair value of available-for-sale investment securities	8(b), 18	9,627	7,862
Release of fair value loss to income statement on disposal of available-for-sale investment securities	8(c)	1,515	-
Total other comprehensive income		<u>11,142</u>	<u>7,862</u>
Total comprehensive income for the year		<u><u>1,413,941</u></u>	<u><u>1,211,402</u></u>

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

Statement of changes in shareholders' equity

	Notes	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Total AED'000
At 1 January 2011		1,154,439	110,350	782,194	1,669,375	3,716,358
Total comprehensive income for the year		-	-	1,203,540	7,862	1,211,402
Transfer to legal reserve	18	-	-	(120,354)	120,354	-
Transfer to voluntary reserve	18	-	-	(46,178)	46,178	-
Transfer to credit risk reserve	18	-	-	(50,000)	50,000	-
Transfer to general banking reserve	18	-	-	(150,000)	150,000	-
Issue of bonus shares	16	230,888	-	(230,888)	-	-
Cash dividend	26	-	-	(230,888)	-	(230,888)
At 31 December 2011		1,385,327	110,350	1,157,426	2,043,769	4,696,872
Total comprehensive income for the year		-	-	1,402,799	11,142	1,413,941
Transfer to regulatory credit risk reserve	18	-	-	(255,000)	255,000	-
Transfer to legal reserve	18	-	-	(140,280)	140,280	-
Transfer to voluntary reserve	18	-	-	(27,706)	27,706	-
Transfer to credit risk reserve	18	-	-	(200,000)	200,000	-
Transfer to general banking reserve	18	-	-	(200,000)	200,000	-
Issue of bonus shares	16	138,532	-	(138,532)	-	-
Cash dividend	26	-	-	(415,598)	-	(415,598)
At 31 December 2012		1,523,859	110,350	1,183,109	2,877,897	5,695,215

The notes on pages 13 to 67 form an integral part of these financial statements

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

Statement of cash flows

	Note	Year ended 31 December	
		2012 AED'000	2011 AED'000
Operating activities			
Net profit for the year		1,402,799	1,203,540
Adjustments:			
Net charge for impairment of loans and advances	7(d)	209,115	301,018
Depreciation	23	99,860	78,056
Provision for employees' end of service benefits	15	15,797	11,776
Gain on disposal of property and equipment		(502)	(579)
Amortisation of discount relating to investment securities held for maturity	8(b)	(1,334)	(645)
Amortisation of cost relating to debt security in issue		-	-
Release of fair value loss to income statement on redemption of available-for-sale investment securities	8(c)	1,515	-
		<u>1,727,250</u>	<u>1,593,166</u>
Operating cash flows before payment of employees' end of service benefits and changes in assets and liabilities		1,727,250	1,593,166
Payment of employees' end of service benefits	15	(7,422)	(4,317)
Changes in assets and liabilities:			
Statutory deposits with the UAE Central Bank	5	(260,131)	(479,535)
Certificate of deposits with the UAE Central Bank with original maturities of over 3 months	5	(650,000)	390,000
Due from other banks with original maturities of three months or over	28	(206,952)	
Loans and advances net of charge for impairment and amounts written off/(back)	7	(2,124,072)	(2,267,747)
Other assets	10	(42,531)	(1,630)
Due to other banks (net of amounts due to Central Bank)	11	(136,607)	136,603
Due to customers	12	2,429,560	1,920,036
Other liabilities	14	96,419	(19,425)
		<u>825,514</u>	<u>1,267,151</u>
Net cash generated from operating activities		825,514	1,267,151
Investing activities			
Purchase of investment securities	8(b)	(641,074)	(460,783)
Purchase of property and equipment	9	(184,161)	(262,016)
Proceeds from maturity of investment securities	8(b)	228,970	73,460
Proceeds from sale of property and equipment		1,197	4,320
		<u>(595,068)</u>	<u>(645,019)</u>
Net cash used in investing activities		(595,068)	(645,019)
Financing activities			
Subordinated debt repayment	13	(684,467)	-
Dividend paid	26	(415,598)	(230,888)
		<u>(1,100,065)</u>	<u>(230,888)</u>
Net cash used in financing activities		(1,100,065)	(230,888)
Net (decrease)/Increase in cash and cash equivalents		<u>(869,619)</u>	<u>391,244</u>
Cash and cash equivalents, beginning of the year		2,233,818	1,842,574
		<u>1,364,199</u>	<u>2,233,818</u>
Cash and cash equivalents, end of the year	28	1,364,199	2,233,818

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

Notes to the financial statements for the year ended 31 December 2012

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, 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 three branches in the UAE.

The Bank incorporated two subsidiaries during the year. These subsidiaries are RAK Islamic Finance Pvt. J.S.C in which the Bank owns 99.9% and BOSS FZCO in which the Bank owns 80%. RAK Islamic Finance Pvt. J.S.C has an authorised and issued capital of AED 100 million, and was incorporated to enable the Bank to launch its Islamic operations and sell sharia compliant financial products. BOSS FZCO has been incorporated to provide back office support services to the Bank. BOSS FZCO has an authorised and issued share capital of AED 500,000 and was formed under the Dubai Silicon Oasis Authority guidelines. The Bank has not commenced significant operations in the above subsidiaries as at the balance sheet date.

2 Significant accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with and comply with International Financial Reporting Standards, (IFRS). The financial statements are prepared under the historical cost convention except for available-for-sale financial assets and derivative financial instruments which have been measured at fair value.

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

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

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

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

Notes to the financial statements for the year ended 31 December 2012

(continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

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

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

The bank has assessed the impact of the above new standards and amendments to published standards and has concluded that they will not have a significant impact on the bank's financial statements.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

(b) 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 bank 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 bank will not be able to collect all amounts due.

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

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

Where such an event has had an impact on the estimated future cash flows of the financial asset or group of financial assets, an impairment allowance is recognised. 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 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.

Impairment allowances are assessed individually for financial assets that are individually significant. Such individual assessment is used primarily for the bank's corporate lending portfolios. Impairment allowances for portfolios of smaller balance homogenous loans such as most residential mortgages, personal loans and credit card balances in the Bank's retail portfolios that are below the individual assessment thresholds, and for loan losses that have been incurred but not separately identified at the balance sheet date, are determined on a collective basis.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

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

In respect of portfolios of smaller balance, homogenous loans, the asset is included in a group of financial assets with similar risk characteristics and collectively assessed for impairment. Segmentation takes into account factors such as the type of asset, industry sector, geographical location, collateral type, past-due status and other relevant factors. These characteristics are relevant to the estimation of future cash flows for groups of such assets as they are indicative of the borrower's ability to pay all amounts due according to the contractual terms of the assets being evaluated. Generally, the impairment trigger used within the impairment calculation for a loan, or group of loans, is when they reach a pre-defined level of delinquency or where the customer is bankrupt.

In respect of the Bank's secured mortgage portfolios, the impairment allowance is calculated based on a definition of impaired loans which are those three months or more in arrears (or certain cases where the borrower is bankrupt). The estimated cash flows are calculated based on historical experience and are dependent on estimates of the expected value of collateral which takes into account expected future movements in house prices, less costs to sell.

For unsecured personal lending portfolios, the impairment trigger is generally when the balance is three or more installments in arrears or where the customer has exhibited one or more of the impairment characteristics set out above. While the trigger is based on the payment performance or circumstances of each individual asset, the assessment of future cash flows uses historical experience of banks own loan portfolios such that the assessment is considered to be collective. Future cash flows are estimated on the basis of the contractual cash flows of the assets in the banks portfolio and historical loss and recoveries. Historical loss experience is adjusted on the basis of current observable data about economic and credit conditions (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses and their magnitude) 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 exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

In certain circumstances, the bank will renegotiate the original terms of a customer's loan, either as part of an ongoing customer relationship, aligning to current market interest rates or in response to adverse changes in the circumstances of the borrower. There are a number of different types of loan renegotiation, including the capitalisation of arrears, interest rate adjustments and extensions of the due date of payment. Renegotiation may lead to the loan and associated provision being derecognised and a new loan being recognised initially at fair value. The renegotiated loans are no longer considered to be past due but are treated as new loans. The bank monitors the performance of renegotiated loans continuously and the loans which are performing continuously for a period of 12 months are classified as normal loans.

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 income statement. Subsequent recoveries are credited to the 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 income statement.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

(c) Investment securities

The bank classifies its investment securities in the following categories: Held at fair value through profit and loss, held-to-maturity and available-for-sale. Management determines the classification of its investments at initial recognition. The bank currently does not have any assets classified as Held at fair value through profit and loss.

Held at fair value : 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 bank's management has the positive intention and ability to hold to maturity. If the bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

Available-for-sale: Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and advances, (b) held-to-maturity investments or (c) available-for-sale investments.

Regular purchases and sales of financial assets at fair value through profit or loss, held to maturity and available for sale are recognised on trade-date – the date on which the bank commits to purchase or sell the asset.

All 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 bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised through the statement of comprehensive income is recognised in the income statement.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly recognised in the 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 bank establishes fair value by using valuation techniques.

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

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

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

(c) Investment securities (continued)

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

(d) Due from banks

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

(e) Cash and cash equivalents

For the purpose of the cash flow statement, 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.

(f) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

(g) Property and equipment

Land and buildings comprise mainly branches and offices. Property and equipment is stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

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

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

(g) Property and equipment (continued)

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

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

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

Capital work in progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with the bank's accounting policy.

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

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

(h) Fiduciary assets

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

(i) 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 for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to balance sheet date. This provision is included in other liabilities. Provision is also made for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law for their periods of service up to the balance sheet date and the provision arising is disclosed as 'provision for employee's end of service benefits' in the balance sheet.

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

Notes to the financial statements for the year ended 31 December 2012

(continued)

2 Significant accounting policies (continued)

(j) Share capital

(a) Share issue costs

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

(b) Dividends on ordinary shares

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

(k) 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.

(l) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowing, using the effective interest method.

(m) Foreign currencies

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

(n) Interest income and expense

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

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

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

2 Significant accounting policies (continued)

(n) Interest income and expense (continued)

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

(o) Fee and commission income

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

(p) Offsetting financial instruments

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

(q) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

(r) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. The bank has determined the bank's Executive Committee as its chief operating decision maker. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with IFRS 8, the bank has the following business segments: retail banking, corporate banking and treasury.

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

Notes to the financial statements for the year ended 31 December 2012

(continued)

3 Financial risk management

3.1 Risk management review

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

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

3.2 Credit risk

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

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

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

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

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

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

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

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

	Maximum exposure	
	31 December 2012	31 December 2011
	AED'000	AED'000
<i>Credit risk exposures relating to on-balance sheet assets are as follows:</i>		
Due from banks	1,195,831	1,972,251
Loans and advances:		
Loans to retail customers	19,790,501	18,040,411
Loans to corporate customers	492,926	328,059
Investment securities	1,586,878	1,163,813
Other assets	187,372	148,535
<i>Credit risk exposures relating to off-balance sheet items are as follows:</i>		
Loan commitments and other off balance sheet items	6,615,636	5,858,454
	<u>29,869,144</u>	<u>27,511,523</u>

The above table represents a worse case scenario of credit risk exposure to the bank at 31 December 2012 and 2011 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As can be seen above exposure arising other than from loans and advances to customers and due from banks are insignificant.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

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

- 92% (2011: 92%) of the loans and advances are categorised in the top grades of the bank's internal grading system.
- Mortgage loans and auto loans, which together represent a significant portion (2012: 24%, 2011: 25%) of loans and advances, are backed by collateral.
- 10% (2011: 8%) of the loans comprise of renegotiated loans, where the Bank has mainly aligned its lending rates to current prevailing market lending rates to manage credit risk.
- The bank continuously reviews its credit and credit underwriting policies and changes are made based on the Management Information System (MIS) reports and the patterns that emerge from these reports.
- A significant portion of investments securities comprise debt instruments that are issued by government and reputable quasi government organisation (Note 8).

3.2.2 Loans and advances to customers and amounts due from banks

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

	31 December 2012		31 December 2011	
	Loans and advances to customers AED'000	Amounts due from banks AED'000	Loans and advances to customers AED'000	Amounts due from banks AED'000
Neither past due nor impaired	18,878,453	1,195,831	17,119,026	1,972,251
Past due but not impaired	1,212,575	-	1,113,306	-
Individually Impaired	516,509	-	474,116	-
Gross	20,607,537	1,195,831	18,706,448	1,972,251
Less: allowance for impairment	(324,110)	-	(337,978)	-
Net	20,283,427	1,195,831	18,368,470	1,972,251

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Neither past due nor impaired

	31 December 2012		31 December 2011	
	Loans and advances to customers AED'000	Amounts due from banks AED'000	Loans and advances to customers AED'000	Amounts due from banks AED'000
Loans and advances				
- Retail loans	18,398,325	-	16,796,890	-
- Corporate loans	480,128	-	322,136	-
Due from banks	-	1,195,831	-	1,972,251
Gross	18,878,453	1,195,831	17,119,026	1,972,251

Loans and advances

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the bank.

Retail banking loans are graded into buckets according to the number of installments past due. All loans that are not in default of interest payment and installment are graded as bucket 0, while loans and advances that are in default of interest payment and installments are graded upwards from bucket 1 onwards, depending on the number of days past due. The corporate banking and SME credit matrix is used to rate corporate and SME loans under various characteristics. There are six categories of performing loans and three categories of non-performing loans. These ratings are reviewed at least once a year, or more frequently as required. Loans and advances are classified as delinquent after 90 days of non-payment of interest and installments. The credit policy has set internal lending limits for various industry exposures. The corporate loan portfolio is reviewed on a quarterly basis. Further, mortgage loans and auto loans, which together represent a significant portion of loans and advances, are backed by collateral. The bank uses the grading of loans into different buckets in assessing the impairment loss in the bank's loan portfolio.

Amounts due from banks

The bank held amounts due from banks of AED 1,196 million (2011: 1,972 million) which represents its maximum credit exposure on these assets. The balance due from banks includes AED 665 million (2011: AED 1,640 million) placements with banks which enjoy a credit rating of at least BBB+. Remaining balances due from banks and other financial institutions are held with reputable organisations within and outside UAE, where the risk of default is considered low.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Past due but not impaired

Loans and advances less than 90 days past due are not considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class of customers that were past due but not impaired are as follows:

	31 December 2012			31 December 2011		
	Retail loans AED'000	Corporate loans AED'000	Total AED'000	Retail loans AED'000	Corporate loans AED'000	Total AED'000
Past due up to 30 days	731,915	-	731,915	725,216	-	725,216
Past due 30 - 60 days	329,986	-	329,986	252,206	-	252,206
Past due 60-90 days	150,674	-	150,674	135,884	-	135,884
Total	1,212,575	-	1,212,575	1,113,306	-	1,113,306
Fair value of collateral	465,461	-	465,461	397,818	-	397,818

Individually Impaired

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

	31 December 2012			31 December 2011		
	Retail loans AED'000	Corporate loans AED'000	Total AED'000	Retail loans AED'000	Corporate loans AED'000	Total AED'000
Individually impaired loans	471,804	44,705	516,509	435,566	38,550	474,116
Fair value of collateral	(259,839)	(9,570)	(269,409)	(237,492)	(9,595)	(247,087)
Net	211,965	35,135	247,100	198,074	28,955	227,029

The total impairment provision for loans and advances is AED 324.11 million (2011: AED 337.98 million) of which AED 271.94 million (2011: AED 254.33 million) represents provision in respect of the individually impaired loans and advances and the remaining amount of AED 52.17 million (2011: AED 83.65 million) represents the portfolio provision to reflect the risk inherent in bank's loan portfolio.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

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

Loans and advances renegotiated

Restructuring activities include interest rate adjustments, extended payment arrangements and modification of payments. The majority of restructuring activity is under taken to improve cash flow and is within the terms and conditions of the bank's product programme guideline. These policies are kept under continuous review. Once a loan is renegotiated, it is no longer considered past due but is treated as a new loan. The table below presents the loans restructured during the year 2012 and 2011.

Restructured Loans - Retail banking

Product	2012		2011	
	No of Accounts	Loan Amount AED'000	No of Accounts	Loan Amount AED'000
Retail Loans	776	556,478	1,034	486,760
Small Commercial Loans	417	317,717	363	244,037
Mortgage Loans	28	60,445	137	365,669
Total	1,221	934,640	1,534	1,096,466

During the year AED 934.6 million (2011: AED 1,096.5 million) of loans to customers, mostly to UAE Nationals, were restructured. The aggregate amount of restructured loans at 31 December 2012 is AED 1,962 million (2011: AED 1,490 million). The majority of these restructured loans have performed satisfactorily after restructuring and are neither past due nor impaired. The Bank as a policy does not restructure loans more than once, unless on an exceptional basis.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.3 Investment securities

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

The table below presents an analysis of debt securities by rating agency designation at 31 December 2012 and 31 December 2011, based on external's ratings or their equivalent. A detailed list of investment securities are provided under note 8(d).

	31 December 2012	31 December 2011
	AED'000	AED'000
A+ to A-	778,470	446,223
Ba1 to Baa2	412,008	375,595
Unrated	396,400	341,995
Total	1,586,878	1,163,813

3.2.4 Repossessed collateral

During 2012 and 2011, the bank has, except for retail auto loans, not taken possession of any collateral held as security other than bank deposits which may have been utilised in settlement of credit facilities. In the case of retail auto loans where the underlying asset is repossessed as a part of recovery process, these are disposed off in an auction by authorised third parties and the bank does not carry any such assets in its books.

3.2.5 Concentration of risks of financial assets with credit risk exposure

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographical location.

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

Geographical risk concentration

The following table breaks down the bank's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2012 and 31 December 2011.

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

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

On balance sheet items

	UAE	OECD	Others	Total
31 December 2012	AED'000	AED'000	AED'000	AED'000
Due from banks	782,095	405,975	7,761	1,195,831
Loans and advances				
- Retail loans	19,652,388	41,112	97,001	19,790,501
- Corporate loans	491,549	-	1,377	492,926
Investment securities				
- Held-to-maturity	1,429,407	18,538	96,245	1,544,190
- Available-for-sale	42,688	-	-	42,688
Other assets	187,372	-	-	187,372
Total	22,585,499	465,625	202,384	23,253,508
31 December 2011	AED'000	AED'000	AED'000	AED'000
Due from banks	1,632,715	249,839	89,697	1,972,251
Loans and advances:				
- Retail loans	17,953,985	19,588	66,838	18,040,411
- Corporate loans	328,059	-	-	328,059
Investment securities				
- Held-to-maturity	975,367	-	37,020	1,012,387
- Available-for-sale	151,426	-	-	151,426
Other assets	148,535	-	-	148,535
Total	21,190,087	269,427	193,555	21,653,069

Off balance sheet items

	UAE	OECD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2012				
Credit commitments	5,979,668	268	436	5,980,372
Guarantees, acceptances and other exposures	619,359	6,355	9,550	635,264
	6,599,027	6,623	9,986	6,615,636
31 December 2011				
Credit commitments	5,455,865	431	435	5,456,731
Guarantees, acceptances and other exposures	386,079	6,094	9,550	401,723
	5,841,944	6,525	9,985	5,858,454

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Concentration of credit risk by industry

The following table breaks down the bank's credit exposures on loans and advances, debt securities and off balance sheet items categorised by industry as of 31 December 2012 and 31 December 2011.

	On balance sheet items			Total funded AED'000	Off balance sheet Items AED'000	Total AED'000
	Loans and advances AED'000	Debt securities AED'000	Due from banks AED'000			
31 December 2012						
Agriculture, fishing & related activities	18,300	-	-	18,300	629	18,929
Crude oil , gas, mining & quarrying	390	-	-	390	112,720	113,110
Manufacturing	205,298	-	-	205,298	173,003	378,301
Electricity & water	15,131	-	-	15,131	735	15,866
Construction	760,245	-	-	760,245	104,464	864,709
Trading	2,714,892	-	-	2,714,892	500,882	3,215,774
Transport, storage & communication	778,468	73,460	-	851,928	43,079	895,007
Financial Institutions	27,279	888,510	1,195,831	2,111,620	166,722	2,278,342
Services	596,393	-	-	596,393	195,234	791,627
Government	-	624,908	-	624,908	118,685	743,593
Retail and consumer banking	15,360,330	-	-	15,360,330	5,197,846	20,558,176
Others	226,131	-	-	226,131	1,637	227,768
Total exposures	20,702,857	1,586,878	1,195,831	23,485,566	6,615,636	30,101,202
Less: Interest in suspense	(95,320)	-	-	(95,320)	-	(95,320)
	20,607,537	1,586,878	1,195,831	23,390,246	6,615,636	30,005,882

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

Notes to the financial statements for the year ended 31 December 2012
(continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.6 Concentration of credit risk by industry (continued)

	On balance sheet Items			Total funded AED'000	Off	Total AED'000
	Loans and advances AED'000	Debt Securities AED'000	Due from banks AED'000		balance sheet Items AED'000	
31 December 2011						
Agriculture, fishing & related activities	26,179	-	-	26,179	208	26,387
Crude oil , gas, mining & quarrying					87,010	87,010
Manufacturing	179,496	-	-	179,496	162,771	342,267
Electricity & water	8,088	-	-	8,088	91	8,179
Construction	516,560	-	-	516,560	73,431	589,991
Trading	1,828,829	-	-	1,828,829	425,948	2,254,777
Transport, storage & communication	909,723	73,460		983,183	31,953	1,015,136
Financial Institution	15,213	464,321	1,972,251	2,451,785	48,421	2,500,206
Services	340,627	-	-	340,627	145,946	486,573
Government		510,190	-	510,190	86,616	596,806
Retail and consumer banking	14,802,114	-	-	14,802,114	4,787,448	19,589,562
Others	159,151	115,842		274,993	8,611	283,604
Total exposures	18,785,980	1,163,813	1,972,251	21,922,044	5,858,454	27,780,498
Less: Interest in suspense	(79,532)	-	-	(79,532)	-	(79,532)
	<u>18,706,448</u>	<u>1,163,813</u>	<u>1,972,251</u>	<u>21,842,512</u>	<u>5,858,454</u>	<u>27,700,966</u>

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

Notes to the financial statements for the year ended 31 December 2012
(continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Individually impaired loans by industry

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

	Less than 90 days AED '000	Overdue above 90 Days AED '000	Total AED '000	Specific Provision AED '000
31 December 2012				
Agriculture, fishing & related activities				
Crude oil, gas, mining & quarrying				
Manufacturing	10	2,439	2,449	2,223
Electricity & water				
Construction	3	72,412	72,415	37,494
Trading	177	32,142	32,319	23,462
Transport, storage & communication	1,720	7,747	9,467	8,826
Financial institution				
Services	10	5,126	5,136	4,715
Government				
Retail and consumer banking	12,159	477,884	490,043	195,222
Total impaired loans	<u>14,079</u>	<u>597,750</u>	<u>611,829</u>	<u>271,942</u>
Less: Interest in suspense			(95,320)	-
			<u><u>516,509</u></u>	<u><u>271,942</u></u>

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

Notes to the financial statements for the year ended 31 December 2012

(continued)

3 Financial risk management (continued)

3.2 Credit risk (continued)

3.2.7 Individually impaired loans by industry (continued)

	less than 90 days AED'000	Overdue above 90 Days AED'000	Total AED'000	Specific Provision AED'000
31 December 2011				
Agriculture, fishing & related activities	-	-	-	-
Crude oil, gas, mining & quarrying	-	-	-	-
Manufacturing	307	521	828	768
Electricity & water	-	-	-	-
Construction	616	64,411	65,027	34,933
Trading	2,978	15,916	18,894	17,332
Transport, storage & communication	313	6,331	6,644	5,999
Financial institution	-	-	-	-
Services	505	2,815	3,320	3,094
Government	-	-	-	-
Retail and consumer banking	8,166	450,769	458,935	192,203
Total impaired loans	<u>12,885</u>	<u>540,763</u>	<u>553,648</u>	<u>254,329</u>
Less: Interest in suspense			(79,532)	-
			<u>474,116</u>	<u>254,329</u>

3.3 Market risk

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

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

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

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

Notes to the financial statements for the year ended 31 December 2012

(continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

Further the bank does not enter in derivative trades for speculative or hedging purposes. The only exposure to derivatives is in respect of forward exchange contracts which are entered into on behalf of the bank's customers (Note 20).

3.3.1 Price risk

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

The sensitivity analysis for price risk illustrates how changes in the fair value of securities held by the bank will fluctuate because of changes to market prices or changes in key variables used in valuation techniques, whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market. At 31 December 2012, if market prices had increased/decreased by 5%, with all other variables held constant, the fair value reserve in equity would have increased/decreased by AED 2.1 million (2011: AED 7.6 million).

3.3.2 Interest rate risk

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

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

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		From 3 months to 1 year		1-5 years		Over 5 years		Non-interest bearing		Total		Interest rate %
	AED'000		AED'000		AED'000		AED'000		AED'000		AED'000		
At 31 December 2012													
Assets													
Cash and balances with the UAE Central Bank	-	750,000	-	-	-	-	-	-	2,154,054	-	2,904,054	0.50	
Due from other banks	664,580	-	-	-	-	-	-	-	531,251	-	1,195,831	0.12- 0.53	
Loans and advances	2,834,064	321,830	17,127,533	-	-	-	-	-	-	-	20,283,427	0.01 - 33.00	
Investment securities	248,764	344,333	956,452	-	-	-	37,329	-	-	-	1,586,878	1.80 - 8.5	
Property and equipment and other assets	-	-	-	-	-	-	-	-	1,279,947	-	1,279,947		
Total	3,747,408	1,416,163	18,083,985	-	-	-	37,329	-	3,965,252	-	27,250,137		
Liabilities and shareholders' equity													
Due to other banks	100,000	-	-	-	-	-	-	-	133,841	-	233,841	0.10	
Due to customers	13,692,665	3,138,143	23	-	-	-	-	-	3,888,894	-	20,719,725	0.02 - 4.00	
Subordinated debt	-	-	-	-	-	-	-	-	-	-	-		
Other liabilities and provision for employees' end of service benefits	-	-	-	-	-	-	-	-	601,356	-	601,356		
Shareholders' equity	-	-	-	-	-	-	-	-	5,695,215	-	5,695,215		
Total	13,792,665	3,138,143	18,083,985	23	-	-	37,329	-	10,319,306	-	27,250,137		
Interest rate sensitivity gap	(10,045,257)	(1,721,980)	18,083,962	18,083,962	-	-	37,329	-	(6,354,054)	-	-		

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 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	Interest rate %
At 31 December 2011							
Assets							
Cash and balances with the UAE Central Bank	-	100,000	-	-	1,744,193	1,844,193	0.55
Due from other banks	1,640,467	-	-	-	331,784	1,972,251	0.12 - 1.28
Loans and advances	2,450,068	415,948	15,502,454	-	-	18,368,470	0.01 - 33.00
Investment securities	299,918	208,487	655,408	-	-	1,163,813	0.90 - 8.50
Property and equipment and other assets	-	-	-	-	1,153,810	1,153,810	-
Total	4,390,453	724,435	16,157,862	-	3,229,787	24,502,537	
Liabilities and shareholders' equity							
Due to other banks	236,000	-	-	-	98,471	334,471	0.25 - 0.50
Due to customers	12,206,420	2,701,193	-	-	3,382,552	18,290,165	0.15 - 5.00
Subordinated debt	684,467	-	-	-	-	684,467	4.00
Other liabilities and provision for employees' end of service benefits	-	-	-	-	496,562	496,562	
Shareholders' equity	-	-	-	-	4,696,872	4,696,872	
Total	13,126,887	2,701,193	-	-	8,674,457	24,502,537	
Interest rate sensitivity gap	(8,736,434)	(1,976,758)	16,157,862	-	(5,444,670)		

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

Notes to the financial statements for the year ended 31 December 2012

(continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

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

	2012 AED'000	2011 AED'000
Fluctuation in interest rates by 25 bps	<u>29,418</u>	<u>26,783</u>

The interest rate sensitivities set out above are worst case scenarios and employ simplified calculations. They are based on the gap between AED 5,164 million (2011: AED 5,115 million) of interest bearing assets with maturities within one year and AED 16,931 million (2011: AED 15,828 million) of interest bearing liabilities with maturities within one year. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

3.3.3 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

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

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

Notes to the financial statements for the year ended 31 December 2012

(continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

At 31 December 2012 and 31 December 2011, bank had the following net exposures denominated in foreign currencies:

On balance sheet items

At 31 December 2012	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Assets				
Cash and balances with the UAE				
Central Bank	2,661,589	242,465	-	2,904,054
Due from other banks	405,517	434,112	356,202	1,195,831
Loans and advances	19,812,575	458,826	12,026	20,283,427
Investment securities	593,096	993,782	-	1,586,878
Other assets	171,827	15,207	338	187,372
Total assets	23,644,604	2,144,392	368,566	26,157,562
Liabilities				
Due to other banks	233,766	-	75	233,841
Due to customers	18,623,274	1,675,905	420,546	20,719,725
Subordinated debt	-	-	-	-
Other liabilities	536,595	2,120	1,199	539,914
Total liabilities	19,393,635	1,678,025	421,820	21,493,480
Net balance sheet position	4,250,969	466,367	(53,254)	4,664,082
At 31 December 2011				
Total assets	21,608,137	1,421,663	467,462	23,497,262
Total liabilities	17,896,412	1,467,900	330,508	19,694,820
Net balance sheet position	3,711,725	(46,237)	136,954	3,802,442

The bank has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the bank has the largest net open position at 31 December 2012 and 31 December 2011. All currency positions are within limits laid down by ALCO.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.3 Currency risk (continued)

Off-balance sheet items

At 31 December 2012	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Credit commitments	5,956,983	23,389	-	5,980,372
Guarantees, acceptances and other exposures	396,016	122,940	116,308	635,264
Total	6,352,999	146,329	116,308	6,615,636
At 31 December 2011				
Credit commitments	5,419,989	36,349	393	5,456,731
Guarantees, acceptances and other exposures	270,138	113,494	18,091	401,723
	5,690,127	149,843	18,484	5,858,454

3.4 Liquidity risk

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

3.4.1 Liquidity risk management process

The bank manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the bank's internal guidelines mandated by ALCO. The Central Bank of the U.A.E. has prescribed reserve requirements on deposits ranging between 1% and 14% on demand and time deposits. The Central Bank of the U.A.E. also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. ALCO monitors advances to deposits ratios on a regular basis. The bank relies on deposits from customers and banks as its primary source of funding. Deposits from customers and banks generally have shorter maturities and a large portion of them are repayable on demand as is endemic to these markets. The short term nature of these deposits increases the bank's liquidity risk and the bank manages this risk through maintaining competitive pricing and constant monitoring of market trends. The bank also maintains a portfolio of short term highly liquid assets largely made up of balances with the UAE Central Bank, inter-bank facilities and investment securities to ensure that sufficient liquidity is maintained. At 31 December 2012, 20% (31 December 2011 – 19%) of the bank's total assets was in liquid assets.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.2 Non-derivative cash flows

The table below presents the cash flows payable by the bank under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2012					
Due to other banks	233,842	-	-	-	233,842
Due to customers	17,584,434	3,152,310	23	-	20,736,767
Subordinated debt	-	-	-	-	-
Other liabilities	539,914	-	-	-	539,914
Total	18,358,190	3,152,310	23	-	21,510,523
At 31 December 2011					
Due to other banks	334,475	-	-	-	334,475
Due to customers	15,608,749	2,739,199	-	-	18,347,948
Subordinated debt	7,829	23,486	828,466	-	859,781
Other liabilities	443,495	-	-	-	443,495
Total	16,394,548	2,762,685	828,466	-	19,985,699

3.4.3 Derivative cash flows

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

The table below analyses the bank's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Up to 1 month AED'000	1 -3 months AED'000	3 -12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2012						
Foreign exchange contracts						
- Outflow	51,017	-	-	-	-	51,017
- Inflow	50,371	-	-	-	-	50,371
At 31 December 2011						
Foreign exchange contracts:						
- Outflow	208,220	725	-	-	-	208,945
- Inflow	207,431	742	-	-	-	208,173

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.4 Liquidity risk (continued)

3.4.4 Off-balance sheet items

At 31 December 2012	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
Credit commitments	5,980,372	-	-	5,980,372
Guarantees, acceptances and other financial facilities	634,219	1,045	-	635,264
Total	6,614,591	1,045	-	6,615,636
At 31 December 2011				
Credit commitments	5,456,731	-	-	5,456,731
Guarantees, acceptances and other financial facilities	328,128	73,595	-	401,723
Total	5,784,859	73,595	-	5,858,454

3.5 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December 2012, the carrying value of the bank's financial assets and liabilities approximate their fair values, except for the below mentioned financial asset and liability:

	Fair value		Carrying value	
	2012 AED'000	2011 AED'000	2012 AED'000	2011 AED'000
Financial assets				
Investment securities	1,659,443	1,178,168	1,586,878	1,163,813
Financial liabilities				
Subordinated debt	-	764,296	-	684,467

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.5 Fair values of financial assets and liabilities (continued)

(i) Investment securities

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

(ii) Subordinated debt

Subordinated debt represents an interest bearing loan from Ministry of Finance (Note 13) carried at amortized cost in the financial statements. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available for similar financial instruments. During the year the subordinated debt of AED 684.47 million that was outstanding as at 31 December 2011 was settled in full by the Bank.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.6 Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the bank's market assumptions. These two types of inputs have created the following fair value hierarchy:

- 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 bank considers relevant and observable market prices in its valuations where possible.

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

31 December 2012	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000
Available for sale financial assets			
- Investment securities – debt	42,688	-	-
Foreign currency forwards	-	35	-
	<u>42,688</u>	<u>35</u>	<u>-</u>
	<u><u>42,688</u></u>	<u><u>35</u></u>	<u><u>-</u></u>
31 December 2011			
Available for sale financial assets			
- Investment securities - debt	151,426	-	-
Foreign currency forwards	-	74	-
	<u>151,426</u>	<u>74</u>	<u>-</u>
	<u><u>151,426</u></u>	<u><u>74</u></u>	<u><u>-</u></u>

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.7 Capital management

For assessment of current capital requirements, set at a minimum of 12% by the Central Bank of the UAE, the bank calculates its risk asset ratio in accordance with guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets. This is also in line with the assessment of capital adequacy ratio in accordance with the Basel I Accord and is analysed as follows:

	2012 AED'000	2011 AED'000
Tier 1 capital		
Ordinary share capital	1,523,859	1,385,327
Share premium	110,350	110,350
Statutory and other reserves	2,294,911	1,677,237
Retained earnings	363,296	320,418
Total	<u>4,292,416</u>	<u>3,493,332</u>
Tier 2 capital		
Subordinated debt	-	684,467
Total capital base	<u>4,292,416</u>	<u>4,177,799</u>
Risk weighted assets		
On balance sheet	21,933,967	20,044,588
Off balance sheet	214,431	276,944
Total risk weighted assets	<u>22,148,398</u>	<u>20,321,532</u>
Risk asset ratio on total capital base (%)	19.38%	20.56%
Risk asset ratio on tier 1 capital base (%)	19.38%	17.19%
Minimum risk asset ratio required by the UAE Central Bank	<u>12.00%</u>	<u>12.00%</u>

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

Total Tier 1 capital	5,085,671	4,281,274
Total Tier 2 capital	-	684,467
Total capital base	<u>5,085,671</u>	<u>4,965,741</u>
Risk asset ratio on total capital base (%)	22.96%	24.44%
Risk asset ratio on tier 1 capital base (%)	<u>22.96%</u>	<u>21.07%</u>

Subordinated debt represents the funds from the Ministry of Finance of the U.A.E. (Note 13).

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.7 Capital management (continued)

3.7.1 Capital structure and capital adequacy as per Basel II requirement as at 31 December 2012

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.

	2012 AED'000	2011 AED'000
Tier 1 capital		
Ordinary share capital	1,523,859	1,385,327
Share premium	110,350	110,350
Statutory and other reserves	2,294,911	1,677,237
Retained earnings	363,296	320,418
Total	<u>4,292,416</u>	<u>3,493,332</u>
Tier 2 capital		
Subordinated debt	-	684,467
Total regulatory capital	<u>4,292,416</u>	<u>4,177,799</u>
Risk weighted assets		
Credit risk	16,951,305	15,230,739
Market risk	3,633	7,761
Operation risk	714,989	608,086
Total risk weighted assets	<u>17,669,927</u>	<u>15,846,586</u>
Capital adequacy ratio on regulatory capital	24.29%	26.36%
Capital adequacy ratio on Tier 1 capital	<u>24.29%</u>	<u>22.04%</u>

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

Total Tier 1 capital	5,085,671	4,281,274
Total Tier 2 capital	-	684,467
Total capital base	<u>5,085,671</u>	<u>4,965,741</u>
Risk asset ratio on total capital base (%)	28.78%	31.34%
Risk asset ratio on tier 1 capital base (%)	<u>28.78%</u>	<u>27.02%</u>

Subordinated debt represents the debt from the Ministry of Finance of the U.A.E. (Note 13). Minimum risk asset ratio required by the UAE Central Bank is 12%.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

3 Financial risk management (continued)

3.7 Capital management (continued)

3.7.2 Analysis of bank's exposure based on Basel II standardised approach

	On balance sheet gross outstanding AED '000	Off balance sheet net exposure after credit conversion AED '000	Credit Risk Mitigation (CRM)			Risk weighted Assets AED '000
			Exposure before CRM AED '000	CRM AED '000	After CRM AED '000	
31 December 2012						
Claims on sovereigns	2,755,627	-	2,755,627	-	2,755,627	-
Claims on PSE's	264,639	-	264,639	-	264,639	-
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	1,966,876	-	1,966,876	-	1,966,876	651,759
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	604,689	466,000	1,070,689	161,029	909,660	909,660
Claims included in the regulatory retail portfolio	16,147,797	29,988	16,165,746	89,693	16,076,053	12,163,873
Claims secured by residential property	3,377,306	-	3,377,069	-	3,377,069	1,518,297
Claims secured by commercial real estate	27,750	-	27,750	-	27,750	27,750
Past due loans	618,775	-	263,788	-	263,788	376,527
Higher-risk categories	-	-	-	-	-	-
Other assets	1,906,108	-	1,906,108	-	1,906,108	1,303,439
Total claims	27,669,567	495,988	27,798,292	250,722	27,547,570	16,951,305
Of which :						
Rated exposure			2,231,515			
Unrated exposure			25,566,777			
Total exposure			27,798,292			

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

Notes to the financial statements for the year ended 31 December 2012
(continued)

3 Financial risk management (continued)

3.7 Capital management (continued)

3.7.2 Analysis of bank's exposure based on Basel II standardised approach (continued)

	On balance sheet gross outstanding AED '000	Off balance sheet net exposure after credit conversion AED '000	Credit Risk Mitigation (CRM)			Risk weighted Assets AED '000
			Exposure before CRM AED '000	CRM AED '000	After CRM AED '000	
31 December 2011						
Claims on sovereigns	1,485,227	-	1,485,227	-	1,485,227	-
Claims on PSE's	510,190	-	510,190	-	510,190	-
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	2,359,332	2,361	2,361,693	-	2,361,693	617,055
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	511,433	308,599	820,032	101,756	718,276	718,276
Claims included in the regulatory retail portfolio	14,292,713	27,468	14,312,590	135,661	14,176,929	10,688,633
Claims secured by residential property	3,609,221	-	3,606,037	-	3,606,037	1,697,225
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	561,916	-	238,831	-	238,831	343,710
Higher-risk categories	-	-	-	-	-	-
Other assets	1,586,598	-	1,586,598	-	1,586,598	1,165,840
Total claims	24,916,630	338,428	24,921,198	237,417	24,683,781	15,230,739
Of which :						
Rated exposure			2,871,883			
Unrated exposure			22,049,315			
Total exposure			24,921,198			

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

Notes to the financial statements for the year ended 31 December 2012
(continued)

3 Financial risk management (continued)

3.7 Capital management (continued)

3.7.3 Capital requirement for market risk under standardised approach as at 31 December

Market Risk

	Risk Weighted Assets		Capital Charge	
	2012 AED '000	2011 AED '000	2012 AED '000	2011 AED '000
Foreign exchange risk	3,633	7,761	436	931

Capital charge for year ended 31 December 2012 has been calculated at 12% (2011: 12%)

3.7.4 Gross exposures and credit risk mitigation

	Exposures		Risk Weighted Assets	
	2012 AED '000	2011 AED '000	2012 AED '000	2011 AED '000
Gross exposure prior to Credit Risk Mitigation	27,798,292	24,921,198	17,192,835	15,435,143
Less: Exposures covered by eligible financial collateral	(250,722)	(237,417)	(241,530)	(204,404)
Net Exposures after Credit Risk Mitigation	<u>27,547,570</u>	<u>24,683,781</u>	<u>16,951,305</u>	<u>15,230,739</u>

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

4 Critical accounting estimates, and judgements in applying accounting policies

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

(a) Impairment losses on loans and advances

The bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the 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 takes into account the historical loss experience in estimating future cash flows in assessing the loan portfolio for impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A +/-5% change in the provision would increase/decrease the profit by AED 16 million (2011: AED 17 million).

(b) Available for sale debt instruments

The bank reviews its available for sale debt instruments 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 available for sale debt instrument before the decrease can be identified with that instrument. This evidence may include observable data indicating that there has been an adverse change in the payment status of counterparties. Management uses estimates based on estimated future cash flows from these debt instruments. 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. For equity instruments designated as available for sale the extent of market value decline or the period over which the decline is seen are seen as impairment indicators.

(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 hold these investments to maturity other than in 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.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

5 Cash and balances with the UAE Central Bank

	2012 AED'000	2011 AED'000
Cash in hand (Note 28)	508,696	358,966
Statutory deposit with the UAE Central Bank	1,645,358	1,385,227
Certificates of deposit with the UAE Central Bank	750,000	100,000
	<u>2,904,054</u>	<u>1,844,193</u>

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the bank. Cash in hand, balances and statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry an interest rate 0.50 % (2011: 0.55%) per annum.

6 Due from other banks

	2012 AED'000	2011 AED'000
Placements with other banks	664,580	1,640,467
Demand deposits	413,786	254,544
Clearing account balances	117,465	77,240
	<u>1,195,831</u>	<u>1,972,251</u>

Placements with other banks carry an interest rate in the range of 0.12% to 0.53% (2011: 0.12% to 1.28%) per annum.

The above represents deposits and balances due from:

Banks in UAE	782,095	1,632,715
Banks outside UAE	413,736	339,536
	<u>1,195,831</u>	<u>1,972,251</u>

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

Notes to the financial statements for the year ended 31 December 2012
(continued)

7 Loans and advances

		2012 AED'000	2011 AED'000
7(a) Loans and advances			
Retail loans		20,082,704	18,345,762
Corporate loans		524,833	360,686
Total loans and advances	7 (b)	<u>20,607,537</u>	<u>18,706,448</u>
Provision for impairment	7 (c)	(324,110)	(337,978)
Net loans and advances		<u><u>20,283,427</u></u>	<u><u>18,368,470</u></u>
7(b) Analysis of loans and advances			
Commercial loans and overdrafts		9,404,824	8,634,535
Retail Loans		7,051,179	6,640,467
Credit Cards		2,713,784	2,533,155
Auto loans		1,241,890	816,065
Others		195,860	82,226
Total loans and advances		<u><u>20,607,537</u></u>	<u><u>18,706,448</u></u>

7(c) Provision for impairment

	Retail loans AED'000	Corporate loans AED'000	Total AED'000
31 December 2012			
Balance brought forward	305,351	32,627	337,978
Impairment charge/ (release) (Note 7(d))	250,751	(302)	250,449
Written off during the year	(263,899)	(418)	(264,317)
Balance carried forward	<u><u>292,203</u></u>	<u><u>31,907</u></u>	<u><u>324,110</u></u>
31 December 2011			
Balance brought forward	269,034	38,860	307,894
Impairment charge/ (release) (Note 7(d))	344,753	(4,668)	340,085
Written off during the year	(308,436)	(1,565)	(310,001)
Balance carried forward	<u><u>305,351</u></u>	<u><u>32,627</u></u>	<u><u>337,978</u></u>

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

7 Loans and advances (continued)

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

	Retail loans AED'000	Corporate loans AED'000	Total AED'000
31 December 2012			
Impairment charge / (release)	250,751	(302)	250,449
Net recovery during the year	(41,334)	-	(41,334)
	<u>209,417</u>	<u>(302)</u>	<u>209,115</u>
31 December 2011			
Impairment charge	344,753	(4,668)	340,085
Net recovery during the year	(39,073)	6	(39,067)
	<u>305,680</u>	<u>(4,662)</u>	<u>301,018</u>

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

7(e) Impaired loans and provision coverage

	31 December 2012 AED'000	31 December 2011 AED'000
Aggregate impaired loans	516,509	474,116
Provision held	324,110	337,978
Coverage ratio	62.75%	71.29 %

The ratio of provisions held to aggregate impaired loans ("coverage ratio") is an indicator of the Bank's achievements in managing lower default rates and improving recovery rates. It does not take into account collateral available, including cash, property and other realizable assets. For computation of the above ratio, the bank has considered total impairment provision including the portfolio provision for the risk inherent in the banks portfolio (Note 3.2.2).

8 Investment securities

8(a) Total investment securities

	2012 AED'000	2011 AED'000
Available-for-sale securities		
Quoted debt securities	42,688	151,426
Held-to-maturity securities		
Quoted debt securities	1,544,190	1,012,387
Total	<u>1,586,878</u>	<u>1,163,813</u>
		(52)

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

Notes to the financial statements for the year ended 31 December 2012
(continued)

8 Investment securities (continued)

8(b) Movement in investment securities

	Available -for- sale securities	Held – to – maturity securities	Total
	AED'000	AED'000	AED'000
At 1 January 2011	124,916	643,067	767,983
Purchases	37,013	423,770	460,783
Maturity	(18,365)	(55,095)	(73,460)
Net changes in fair value (Note 18)	7,862	-	7,862
Amortisation of discount	-	645	645
At 31 December 2011	<u>151,426</u>	<u>1,012,387</u>	<u>1,163,813</u>
Purchases	-	641,074	641,074
Maturity	(118,365)	(110,605)	(228,970)
Net changes in fair value (Note 18)	9,627	-	9,627
Amortisation of discount	-	1,334	1,334
At 31 December 2012	<u><u>42,688</u></u>	<u><u>1,544,190</u></u>	<u><u>1,586,878</u></u>

8(c) Income from investment securities

	2012 AED'000	2011 AED'000
Interest income on debt securities	71,543	48,641
Release of fair value loss to income statement on maturity of available-for-sale investment securities (Note 18)	(1,515)	-
Other investment income	1,513	674
	<u>71,541</u>	<u>49,315</u>

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

Notes to the financial statements for the year ended 31 December 2012
(continued)

8 Investment securities (continued)

8 (d) Investment position as at 31 December 2012

As at 31 December 2012

Counter party	Maturity date	Purchase cost	Carrying value	
		AED'000	AED'000	
Held to maturity investments				
Dubai Govt Int'l Bonds	23-Apr-13	190,657	198,764	
HSBC Bonds	30-Apr-13	42,334	42,911	
DEWA Sukuk	16-Jun-13	50,000	50,000	
ADCB Bonds	21-Nov-13	258,798	251,422	
Dubai DOF Sukuk	3-Nov-14	50,025	50,000	
DEWA Bonds	22-Apr-15	77,881	75,796	
ADIB Sukuk	4-Nov-15	37,648	37,342	
QNB Finance Ltd Bonds	16-Nov-15	37,051	36,944	
Emirates Airlines Bonds	8-Jun-16	73,297	73,460	
Canara Bank London Bonds	9-Sep-16	18,582	18,538	
DEWA Bonds	21-Oct-16	134,032	134,687	
FGB Sukuk	18-Jan-17	110,167	110,172	
Tamweel Funding Ltd Bonds	18-Jan-17	55,095	55,095	
EIB Sukuk	18-Jan-17	91,872	91,862	
QNB Finance Ltd Bonds	22-Feb-17	21,957	21,971	
NBAD Bonds	27-Mar-17	36,639	36,653	
Emirates NBD Bonds	28-Mar-17	73,308	73,332	
Dubai DOF Sukuk	2-May-17	74,286	74,176	
DIB Sukuk	30-May-17	73,772	73,736	
State of Qatar Bonds	20-Jan-22	37,396	37,329	
		1,544,797	1,544,190	
Available-for-sale investments				
DEWA FRN	22-Apr-15	3,673	4,156	483
FGB Sukuk	2-Aug-16	37,013	38,532	1,519
		40,686	42,688	2,002
Total		1,585,483	1,586,878	2,002

**Fair value
reserve
AED'000**

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

Notes to the financial statements for the year ended 31 December 2012
(continued)

8 Investment securities (continued)

8 (d) Investment position as at 31 December 2011 (continued)

As at 31 December 2011

Counter party	Maturity date	Purchase cost	Carrying value	
		AED'000	AED'000	
Held to maturity investments				
Dubai Govt Int'l Bonds	23-Apr-13	190,657	195,055	
DEWA Sukuk	16-Jun-13	50,000	50,000	
Emirates Bank Bonds	30-Apr-12	36,877	36,765	
HSBC Bonds	30-Apr-13	42,334	42,644	
ADCB Bonds	21-Nov-13	258,798	255,240	
Dubai DOF Sukuk	03-Nov-14	50,025	50,000	
Dewa Bonds	22-Apr-15	77,881	76,797	
Dewa Bonds	21-Oct-16	134,032	134,367	
Wings FZCO Bonds	15-Jun-12	22,621	23,481	
Emirates Airlines Bonds	08-Jun-16	73,297	73,460	
ADIB Sukuk	04-Nov-15	37,648	37,558	
QNB Finance Ltd Bonds	16-Nov-15	37,051	37,020	
		1,011,221	1,012,387	
				Fair value reserve
				AED'000
Available-for-sale investments				
Dubai Islamic Bank Sukuk	22-Mar-12	18,365	18,098	(267)
JAFZA Sukuk	27-Nov-12	101,515	92,362	(9,153)
Dewa Bonds	22-Apr-15	3,673	3,971	298
First Gulf Bank Sukuk	02-Aug-16	37,013	36,995	(18)
		160,566	151,426	(9,140)
Total		1,171,787	1,163,813	(9,140)

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

Notes to the financial statements for the year ended 31 December 2012
(continued)

9 Property and equipment

	Land and Buildings	Leasehold Improvements	Other fixed assets	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Cost					
1 January 2011	469,811	62,796	255,923	201,443	989,973
Additions	6,570	717	24,098	230,631	262,016
Transfers	26,916	30,826	99,551	(157,293)	-
Disposals/write off	-	-	(10,960)	(3,104)	(14,064)
31 December 2011	503,297	94,339	368,612	271,677	1,237,925
Additions	9,363	463	14,126	160,209	184,161
Transfers	6,813	11,490	292,043	(310,346)	-
Disposals/write off	-	(1,064)	(1,791)	-	(2,855)
31 December 2012	519,473	105,228	672,990	121,540	1,419,231
Depreciation					
1 January 2011	17,389	36,293	164,343	-	218,025
Charge for the year	14,676	10,815	52,565	-	78,056
Disposals/write off	-	-	(10,323)	-	(10,323)
31 December 2011	32,065	47,108	206,585	-	285,758
Charge for the year	16,009	13,130	70,721	-	99,860
Disposals/write off	-	(813)	(1,347)	-	(2,160)
31 December 2012	48,074	59,425	275,959	-	383,458
Net book amounts					
31 December 2012	471,399	45,803	397,031	121,540	1,035,773
31 December 2011	471,232	47,231	162,027	271,677	952,167

Other assets include computer equipment, furniture and fixtures, office equipment and motor vehicles. During the year ended 31 December 2012, the Bank has capitalized the costs pertaining to the core banking system. The balance of capital work in progress mainly comprises of the costs pertaining to the development of systems for Islamic banking and improvement and set up costs for branches.

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

Notes to the financial statements for the year ended 31 December 2012

(continued)

	2012 AED'000	2011 AED'000
10 Other assets		
Interest receivable	164,794	144,957
Prepayments and deposits	61,324	46,996
Others	18,056	9,690
	<u>244,174</u>	<u>201,643</u>
11 Due to other banks		
Term deposits	100,000	236,000
Current account balance with UAE Central Bank (Note 28)	133,376	97,399
Demand deposits	465	1,072
	<u>233,841</u>	<u>334,471</u>
12 Due to customers		
Time deposits	9,249,064	9,333,198
Current accounts	7,817,296	6,326,947
Savings deposits	2,749,198	1,912,133
Call deposits	904,167	717,887
	<u>20,719,725</u>	<u>18,290,165</u>

Time deposits include AED 280 million (2011: AED 213 million) held by the bank as cash collateral for loans and advances granted to customers.

13 Subordinated debt

In 2009 the Bank received funds from the Ministry of Finance as per an agreement dated 31 December 2009 as part of a facility set up by the UAE Central Bank to provide liquidity support to banks operating in the UAE and for stimulating and maintaining economic activity in the Country. During the year the subordinated debt of AED 684.47 million that was outstanding as at 31 December 2011 was settled in full by the Bank.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

14 Other liabilities

	2012 AED'000	2011 AED'000
Interest payable	94,931	102,359
Accrued expenses	175,797	145,345
Managers cheques issued	151,215	62,800
Others	117,971	132,991
	<u>539,914</u>	<u>443,495</u>

15 Provision for employees' end of service benefits

	2012 AED'000	2011 AED'000
At 1 January	53,067	45,608
Charge for the year (Note 24)	15,797	11,776
Payment during the year	(7,422)	(4,317)
	<u>61,442</u>	<u>53,067</u>

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2012, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 3% (2011: 4.25%). Under this method an assessment has been made of an employee's expected service life with the bank and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 5% (2011: 4.8%).

16 Share capital

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

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

17 Share premium

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

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

18 Other reserves

	Legal reserve	Voluntary reserve	General banking risk reserve	Credit risk reserve	Regulatory credit risk reserve	Fair value reserve	Total
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
At 1 January 2011	405,488	230,889	350,000	700,000	-	(17,002)	1,669,375
Changes during the year							
At 31 December 2011	120,354	46,178	150,000	50,000	-	7,862	374,394
Release of fair value loss to income statement on disposal of available-for-sale investment securities (Note 8(c))	525,842	277,067	500,000	750,000	-	(9,140)	2,043,769
Changes during the year							
At 31 December 2012	140,280	27,706	200,000	200,000	255,000	9,627	832,613
	666,122	304,773	700,000	950,000	255,000	2,002	2,877,897

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

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

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

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.

The bank has created a non-distributable special reserve titled 'Reserve - Regulatory Credit risk' and appropriated AED 255 million into this reserve account as instructed by the Central Bank of UAE.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

19 Contingencies and commitments

	2012 AED'000	2011 AED'000
Commitments to extend credit	5,980,372	5,456,731
Guarantees	492,854	346,037
Letters of credit	111,708	34,529
Acceptances	30,702	21,157
Capital commitments	37,324	34,267
	<u>6,652,960</u>	<u>5,892,721</u>

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 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. The commitments to extend credit amounting to AED 5,855 million are revocable at the option of the bank.

20 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 had the following forward exchange transactions outstanding.

	Contract amount AED'000	Fair value AED'000
31 December 2012	<u>51,017</u>	<u>35</u>
31 December 2011	<u>208,173</u>	<u>74</u>

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

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

Notes to the financial statements for the year ended 31 December 2012
(continued)

21 Interest income and expense

	2012 AED'000	2011 AED'000
Interest income		
Commercial loans and overdrafts	1,296,681	1,125,781
Retail loans	562,103	555,323
Credit cards	617,069	606,611
Auto loans	88,034	61,018
Other banks	4,099	5,324
Deposits with the UAE Central Bank	1,848	3,047
Others	14,016	8,446
	<u>2,583,850</u>	<u>2,365,550</u>
Interest expense		
Due to customers	330,477	353,124
Subordinated debt	19,993	27,759
Borrowings from other banks	92	156
	<u>350,562</u>	<u>381,039</u>

22 Fee and commission income

	2012 AED'000	2011 AED'000
Credit Cards	187,870	188,650
Commercial loans	70,612	143,758
Retail loans	13,074	29,754
Mortgage Loans	24,174	20,874
Auto Loans	18,123	13,251
Trade Finance	13,191	10,539
Investments	72,847	43,471
Others	88,283	72,457
	<u>488,174</u>	<u>522,754</u>

23 Operating expenses

	2012 AED'000	2011 AED'000
Staff costs (Note 24)	610,342	544,116
Occupancy costs	94,968	85,420
Marketing expenses	31,600	42,500
Depreciation (Note 9)	99,860	78,056
Services	46,104	46,641
Legal and consultancy fees	45,979	46,583
Computer expenses	55,193	39,762
Outsourced staff costs	247,108	198,921
Others	50,096	50,898
	<u>1,281,250</u>	<u>1,132,897</u>

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

24 Staff costs

	2012 AED'000	2011 AED'000
Salaries and allowances	567,309	494,566
Pension	9,633	9,344
End of service benefits (Note 15)	15,797	11,776
Staff training	1,128	2,840
Others	16,475	25,590
	<u>610,342</u>	<u>544,116</u>

25 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 has been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

	2012	2011
Net profit for the year in AED	1,402,798,602	1,203,540,353
Weighted average number of shares in issue	1,523,859,480	1,523,859,480
Basic earnings per share in AED	<u>0.92</u>	<u>0.79</u>

There were no potentially dilutive shares as at 31 December 2012 and 31 December 2011.

26 Dividends

At the meeting held on 27 January 2013, the Board of Directors proposed a stock dividend (issue of bonus shares) of 10% amounting to AED 152.39 million and a cash dividend of 40% amounting to AED 609.54 million of the issued and paid up capital in respect of the year ended 31 December 2012 (2011: 10% stock dividend amounting to AED 138.53 million and 30% cash dividend amounting to AED 415.6 million).

Dividends are not accounted for until they have been approved at the Annual General Meeting and, accordingly, the proposed dividend will be accounted for as an appropriation of retained earnings of the year ending 31 December 2012 after it has been approved by the shareholders.

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

27 Related party transactions and balances

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

	2012 AED'000	2011 AED'000
Transactions during the year		
Interest income	1,333	1,456
Interest expense	19,528	19,606
Commission income	777	637
Directors' remuneration	5,212	8,147
Remuneration payable to key management personnel	<u>40,374</u>	<u>33,416</u>
Balances at 31 December:		
Loans and advances:		
- Shareholders and their related companies	107	-
- Directors and their related companies	231	2,235
- Key management personnel	<u>20,018</u>	<u>38,778</u>
	<u>20,356</u>	<u>41,013</u>
Due to customers:		
- Shareholders and their related companies	642,582	934,513
- Directors and their related companies	42,194	36,733
- Key management personnel	<u>22,924</u>	<u>20,339</u>
	<u>707,700</u>	<u>991,585</u>
Irrevocable commitments, contingent liabilities and forward contracts		
- Shareholders and their related companies	118,752	51,920
- Directors and their related companies	<u>445</u>	<u>478</u>
	<u>119,197</u>	<u>52,398</u>

28 Cash and cash equivalents

	2012 AED'000	2011 AED'000
Cash in hand (Note 5)	508,696	358,966
Current account balance with UAE Central Bank (note 11)	(133,376)	(97,399)
Due from other banks (Note 6)	<u>1,195,831</u>	<u>1,972,251</u>
	1,571,151	2,233,818
Less : Due from other banks with original maturity of 3 months or more	<u>(206,952)</u>	-
	<u>1,364,199</u>	<u>2,233,818</u>

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

29 Segments analysis

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

The bank has three main business segments:

- Retail banking – 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, 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.

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

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

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

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

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

29 Segments analysis (continued)

The segment information provided to the Executive Committee for the reportable segments for the year ended 31 December 2012 is as follows:

	Retail banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Unallocated AED'000	Total AED'000
31 December 2012					
External interest income	2,543,417	34,486	5,947	-	2,583,850
External interest expense	(215,334)	(91,381)	(43,847)	-	(350,562)
Interest revenues from other segments	(102,136)	67,298	34,838	-	-
Net interest income	2,225,947	10,403	(3,062)	-	2,233,288
Non interest income	512,913	41,833	105,130	-	659,876
Operating income	2,738,860	52,236	102,068	-	2,893,164
Operating expense excluding depreciation	(860,082)	(69,036)	(5,414)	(246,858)	(1,181,390)
Depreciation	(50,974)	(1,994)	(77)	(46,815)	(99,860)
Total Operating expense	(911,056)	(71,030)	(5,491)	(293,673)	(1,281,250)
Impairment charge net of write off / recovery	(209,417)	302	-	-	(209,115)
Net profit / (loss)	1,618,387	(18,492)	96,577	(293,673)	1,402,799
Segment assets	20,571,820	493,955	5,078,492	-	26,144,267
Unallocated assets				1,105,870	1,105,870
Total assets	20,571,820	493,955	5,078,492	1,105,870	27,250,137
Segment liabilities	12,737,106	6,835,888	1,548,501	-	21,121,495
Unallocated liabilities				433,427	433,427
Total liabilities	12,737,106	6,835,888	1,548,501	433,427	21,554,922

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

29 Segments analysis (continued)

	Retail banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Unallocated AED'000	Total AED'000
31 December 2011					
External interest income	2,327,391	29,788	8,371	-	2,365,550
External interest expense	(234,027)	(94,753)	(52,259)	-	(381,039)
Interest revenues from other segments	(114,829)	73,103	41,726	-	-
Net Interest income	1,978,535	8,138	(2,162)	-	1,984,511
Non interest income	551,843	21,558	79,543	-	652,944
Operating income	2,530,378	29,696	77,381	-	2,637,455
Operating expense excluding depreciation	(790,373)	(53,437)	(5,259)	(205,772)	(1,054,841)
Depreciation	(41,548)	(1,445)	(65)	(34,998)	(78,056)
Total Operating expense	(831,921)	(54,882)	(5,324)	(240,770)	(1,132,897)
Impairment charge net of write off / recovery	(305,680)	4,662	-	-	(301,018)
Net profit / (loss)	1,392,777	(20,524)	72,057	(240,770)	1,203,540
Segment assets	18,545,904	328,201	4,552,347	-	23,426,452
Unallocated assets				1,076,085	1,076,085
Total assets	18,545,904	328,201	4,552,347	1,076,085	24,502,537
Segment liabilities	11,588,574	5,784,399	2,187,229	-	19,560,202
Unallocated liabilities				245,463	245,463
Total liabilities	11,588,574	5,784,399	2,187,229	245,463	19,805,665

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

Notes to the financial statements for the year ended 31 December 2012 (continued)

30 Fiduciary activities

The bank holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2012, such assets amounted to AED 1,109.14 million (2011: AED 554.21 million) and are excluded from these financial statements of the bank.

31 Assets and liabilities maturity profile

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

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the bank and its exposure to changes in interest rates and exchange rates.

	Up to 3 months	3 – 12 months	1 – 5 years	Over 5 years	Total
At 31 December 2012	AED'000	AED'000	AED'000	AED'000	AED'000
Assets					
Cash and balances with the UAE Central Bank	2,154,054	750,000	-	-	2,904,054
Due from other banks	1,195,831	-	-	-	1,195,831
Loans and advances	2,834,064	321,830	6,475,494	10,652,039	20,283,427
Investment securities	42,688	543,096	963,765	37,329	1,586,878
Property and equipment, and other assets	198,796	33,642	11,736	1,035,773	1,279,947
Total	6,425,433	1,648,568	7,450,995	11,725,141	27,250,137
Liabilities and shareholders' equity					
Due to other banks	233,841	-	-	-	233,841
Due to customers	17,581,559	3,138,143	23	-	20,719,725
Other liabilities and provision for employees' end of service benefits	539,914	-	-	61,442	601,356
Shareholders' equity	-	-	-	5,695,215	5,695,215
Total	18,355,314	3,138,143	23	5,756,657	27,250,137
Net liquidity gap	(11,929,881)	(1,489,575)	7,450,972	5,968,484	-
At 31 December 2011					
Total assets	6,496,146	596,763	5,408,393	12,001,235	24,502,537
Total liabilities and equity	16,366,938	2,701,193	684,467	4,749,939	24,502,537
Net liquidity gap	(9,870,792)	(2,104,430)	4,723,926	7,251,296	-