

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

**Condensed consolidated interim financial information
For the six months ended 30 June 2014**

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

Condensed consolidated interim financial information for the six months ended 30 June 2014

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

Introduction

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

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
22 July 2014

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

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

Condensed consolidated statement of financial position

		30 June 2014	31 December
	Notes	(reviewed)	2013
		AED'000	(audited)
			AED'000
ASSETS			
Cash and balances with UAE Central Bank	3	4,656,801	3,622,262
Due from other banks	4	1,628,021	543,899
Loans and advances, net	5	23,412,945	21,959,245
Investment securities	7	3,550,622	2,695,952
Property and equipment, net	8	985,098	1,028,873
Other assets	9	313,138	276,538
Total assets		34,546,625	30,126,769
LIABILITIES AND EQUITY			
LIABILITIES			
Due to other banks		395,351	3,357
Deposits from customers	10	25,496,035	23,069,147
Debt security in issue	29	1,636,923	-
Other liabilities	12	569,234	472,745
Provision for employees' end of service benefits		71,939	65,450
Total liabilities		28,169,482	23,610,699
EQUITY			
Share capital	13	1,676,245	1,676,245
Share premium		110,350	110,350
Retained earnings		1,314,747	1,452,439
Other reserves	14	3,275,801	3,277,036
Total equity		6,377,143	6,516,070
Total liabilities and equity		34,546,625	30,126,769

This condensed consolidated interim financial information was approved by the Board Audit and Risk Committee on 21 July 2014 and was signed on by:

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Omar Bin Saqr Al Qasimi
Chairman

The notes 1 to 29 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated income statement (reviewed)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2014 AED'000	2013 AED'000	2014 AED' 000	2013 AED'000
Interest income	17	691,385	661,199	1,359,128	1,328,090
Interest expense	17	(50,997)	(63,269)	(102,326)	(135,806)
Net interest income		640,388	597,930	1,256,802	1,192,284
Income from Islamic financing	18	42,916	9,058	72,996	9,901
Distribution to depositors	18	(7,630)	(1,943)	(14,911)	(2,182)
Income from Islamic financing net of distribution to depositors		<u>35,286</u>	<u>7,115</u>	<u>58,085</u>	<u>7,719</u>
Net interest income and income from Islamic products net of distribution to depositors		675,674	605,045	1,314,887	1,200,003
Net fees and commission income	19	170,252	135,318	319,756	264,896
Foreign exchange income		21,265	19,877	41,444	36,889
Investment income/(loss)	20	(296)	19,177	2,044	19,336
Other operating income		7,448	10,355	20,889	20,985
Non-interest income		<u>198,669</u>	<u>184,727</u>	<u>384,133</u>	<u>342,106</u>
Operating income		874,343	789,772	1,699,020	1,542,109
Operating expenses		(380,452)	(340,954)	(740,219)	(663,884)
Provision for impairment of loans and advances net of write backs	5(d)	(128,028)	(56,718)	(258,370)	(118,148)
Net profit for the period		<u>365,863</u>	<u>392,100</u>	<u>700,431</u>	<u>760,077</u>
Earnings per share Basic and diluted	21	<u>AED 0.22</u>	<u>AED 0.23</u>	<u>AED 0.42</u>	<u>AED 0.45</u>

The notes 1 to 29 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of comprehensive income (reviewed)

		Three months ended 30 June		Six months ended 30 June	
		2014	2013	2014	2013
	Notes	AED'000	AED'000	AED'000	AED'000
Profit for the period		365,863	392,100	700,431	760,077
Other comprehensive income:					
Net changes in fair value of available-for- sale investment securities	7	(1,809)	15,282	(1,235)	17,108
Other comprehensive income for the period		<u>(1,809)</u>	<u>15,282</u>	<u>(1,235)</u>	<u>17,108</u>
Total Comprehensive income for the period		<u>364,054</u>	<u>407,382</u>	<u>699,196</u>	<u>777,185</u>

The notes 1 to 29 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of changes in equity (reviewed)

	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Total AED'000
At 1 January 2014	1,676,245	110,350	1,452,439	3,277,036	6,516,070
Dividend (Note 13)	-	-	(838,123)	-	(838,123)
Total comprehensive income for the period	-	-	700,431	(1,235)	699,196
At 30 June 2014	<u>1,676,245</u>	<u>110,350</u>	<u>1,314,747</u>	<u>3,275,801</u>	<u>6,377,143</u>
At 1 January 2013	1,523,859	110,350	1,183,109	2,877,897	5,695,215
Issue of Bonus Shares	152,386	-	(152,386)	-	-
Dividend (Note 13)	-	-	(609,543)	-	(609,543)
Total comprehensive income for the period	-	-	760,077	17,108	777,185
At 30 June 2013	<u>1,676,245</u>	<u>110,350</u>	<u>1,181,257</u>	<u>2,895,005</u>	<u>5,862,857</u>

The notes 1 to 29 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of cash flows

(reviewed)

		Six months ended 30 June	
	Notes	2014 AED'000	2013 AED'000
Operating activities			
Net Profit for the period		700,431	760,077
Adjustments:			
Provision for impairment of loans and advances net of write backs	5(d)	287,045	144,293
Depreciation	8	64,183	60,814
Provision for employees' end of service benefits		10,323	6,771
Gain on disposal of property and equipment		(288)	(242)
Amortisation of premium relating to securities held to maturity	7	7,768	5,166
Gain on held for trading investment securities	7	130	-
Gain / (loss) on sale investment securities		-	(13,014)
Operating cash flows before payment of employees end of service benefits and changes in assets and liabilities:		1,069,592	963,865
Payment of employees' end of service benefits		(3,834)	(3,484)
Changes in assets and liabilities:			
Deposits with the UAE Central Bank	3	(1,093,325)	(224,788)
Due from other banks with original maturities of three months or over		(36,730)	206,952
Loans and advances, Islamic Financing assets net of provisions for impairment	5	(1,740,745)	(728,474)
Other assets	9	(36,600)	(34,341)
Due to other banks (net of amount due to Central Bank)		391,994	373,078
Deposits from customers	10	2,426,888	780,076
Other liabilities	12	96,489	(84,607)
Net cash generated from operating activities		<u>1,073,729</u>	<u>1,248,277</u>
Investing activities			
Purchase of investment securities	7	(863,803)	(1,468,168)
Purchase of property and equipment	8	(20,424)	(66,739)
Proceeds from maturity / disposal of investments		-	491,829
Proceeds from disposal of property and equipment		304	424
Net cash used in investing activities		<u>(883,923)</u>	<u>(1,042,654)</u>

The notes 1 to 29 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of cash flows

(reviewed) (continued)

		Six months ended 30 June	
	Notes	2014 AED'000	2013 AED'000
Financing activities			
Dividends Paid		(838,123)	(609,543)
Debt securities issued		1,636,923	-
Net cash used in financing activities		<u>798,800</u>	<u>(609,543)</u>
Net increase in cash and cash equivalents		988,606	(403,920)
Cash and cash equivalents, beginning of the period		<u>1,310,347</u>	<u>1,364,199</u>
Cash and cash equivalents, end of the period	23	<u>2,298,953</u>	<u>960,279</u>

The notes 1 to 29 form an integral part of the condensed consolidated interim financial statements

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2014

1 Incorporation and principal activities

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

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

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

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

2 Significant accounting policies

2.1 Basis of preparation

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

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

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

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

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

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

2 Significant accounting policies

2.1 Basis of preparation (continued)

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

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

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

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

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

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

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

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

There are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning January 1, 2014 that have had a material impact on Bank's condensed consolidated interim financial information.

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

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

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.2 Standards and Interpretations in issue not yet effective

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

New Standards and amendments to Standards:	Effective for annual periods beginning on or after
Amendments	
IAS 19 - Employee Benefits clarifies the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service.	July 1, 2014
IFRS 8 - Operating segment requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, clarify reconciliations of segment assets only required if segment assets are reported regularly.	July 1, 2014
IFRS 13 - Fair Value Measurement (a) clarify that issuing IFRS 13 and amending IFRS 9 and IAS 39 did not remove the ability to measure certain short-term receivables and payables on an undiscounted basis (amends basis for conclusions only) (b) clarify the scope of the portfolio exception in paragraph 52.	
IAS 16 - Property, Plant and Equipment and IAS 38 - Intangible Assets clarify that the gross amount of property, plant and equipment is adjusted in a manner consistent with a revaluation of the carrying amount.	
IAS 24 - Related Party Disclosures clarify how payments to entities providing management services are to be disclosed.	
IFRS 1 - First Time Adoption of International Financial Reporting Standards clarify which versions of IFRSs can be used on initial adoption (amends basis for conclusions only).	
IAS 40 - Investment Property clarifies the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	
IFRS 11 - Joint Arrangements requires an acquirer of an interest in a joint operation in which the activity constitutes a business (as defined in IFRS 3 Business Combinations) to:-	January 1, 2016

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

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

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.2 Standards and Interpretations in issue not yet effective (continued)

New Standards and amendments to Standards:	Effective for annual periods beginning on or after
<p>Apply all of the business combinations accounting principles in IFRS 3 and other IFRSs, except for those principles that conflict with the guidance in IFRS 11</p> <p>- disclose the information required by IFRS 3 and other IFRSs for business combinations.</p> <p>The amendments apply both to the initial acquisition of an interest in joint operation, and the acquisition of an additional interest in a joint operation (in the latter case, previously held interests are not remeasured).</p>	
<p>IAS 16 - Property, Plant and Equipment and IAS 38 Intangible Assets brings the following:</p> <p>- clarify that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment.</p> <p>- introduce a rebuttable presumption that an amortisation method that is based on the revenue generated by an activity that includes the use of an intangible asset is inappropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.</p> <p>- add guidance that expected future reductions in the selling price of an item that was produced using an asset could indicate the expectation of technological or commercial obsolescence of the asset, which, in turn, might reflect a reduction of the future economic benefits embodied in the asset.</p>	
<p>IFRS 14 - Regulatory Deferral Accounts permits an entity which is a first-time adopter of International Financial Reporting Standards to continue to account, with some limited changes, for 'regulatory deferral account balances' in accordance with its previous GAAP, both on initial adoption of IFRS and in subsequent financial statements.</p>	<p>January1, 2016</p>

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

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

2 Significant accounting policies (continued)

2.2 Functional and presentation currency

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

2.3 Basis of consolidation

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

Subsidiaries

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

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

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

Transactions and balances eliminated on consolidation

Inter-company transactions, balances, income and expenses on transactions between Group companies are eliminated. Profits and losses resulting from intercompany transactions that are recognized in assets are also eliminated. Accounting policies of the subsidiary have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

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

2 Significant accounting policies (continued)

2.4 Loans and advances and provision for impairment

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

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio; and

(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

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

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

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

2 Significant accounting policies (continued)

2.4 Loans and advances and provision for impairment (continued)

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

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

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

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

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

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the loan is considered to be past due and disclosed only if renegotiated again.

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

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

2 Significant accounting policies (continued)

2.5 Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Salam, Mudaraba, and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are essentially the same as for conventional banking loans and deposits (Note 2.4).

Murabaha financing

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

Salam

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Group (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer. Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

Mudaraba

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

Wakala

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

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

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

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

2 Significant accounting policies (continued)

2.5 Islamic financing (continued)

Ijara

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

2.6 Investment securities

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

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

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

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

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

Financial assets, except assets that are held for trading are initially recognised at fair value plus transaction costs. For financial assets acquired for trading, transaction costs are charged to profit and loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.

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

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

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

2 Significant accounting policies (continued)

2.6 Investment securities (continued)

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

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

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

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in consolidated income statement – is removed from the consolidated statement of comprehensive income and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on available-for-sale equity instruments are not reversed through the consolidated income statement.

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

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

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

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

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

2 Significant accounting policies (continued)

2.6 Investment securities (continued)

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

3 Cash and balances with the UAE Central Bank

	30 June 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Cash in hand	601,678	568,206
Balances with the UAE Central Bank	105,984	198,242
Statutory deposit with the UAE Central Bank	2,399,139	2,105,814
Certificates of deposit with the UAE Central Bank	1,550,000	750,000
	<u>4,656,801</u>	<u>3,622,262</u>

4 Due from other banks

	30 June 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Placements with other banks	1,410,455	275,475
Demand deposits	113,978	170,942
Clearing account balances	103,588	97,482
	<u>1,628,021</u>	<u>543,899</u>

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

Banks in UAE	1,477,613	373,257
Banks outside UAE	150,408	170,642
	<u>1,628,021</u>	<u>543,899</u>

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

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

5 Loans and advances, net (Including Islamic financing)

	30 June 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
5(a) Loans and advances		
Retail loans	22,504,306	21,400,640
Corporate loans	1,384,352	954,218
Loans and advances (Note 5(b))	23,888,658	22,354,858
Provision for impairment (Note 5(c))	(475,713)	(395,613)
Net loans and advances	23,412,945	21,959,245
5(b) Analysis of loans and advances		
Commercial loans and overdrafts	10,299,162	9,778,256
Retail loans	2,993,986	3,179,806
Mortgage loans	3,767,686	3,669,002
Credit cards	2,791,202	2,864,215
Auto loans	1,798,132	1,685,885
Islamic financing assets (Note 6)	2,238,490	1,177,694
Total loans and advances	23,888,658	22,354,858

5(c) Provision for impairment

	Retail Loans AED'000	Corporate loans AED'000	Total AED'000
Balance brought forward 1 January 2014	365,032	30,581	395,613
Impairment charge (Note 5(d))	286,801	244	287,045
Written off during the period	(206,613)	(332)	(206,945)
Balance carried forward 30 June 2014 (reviewed)	445,220	30,493	475,713
Balance brought forward 1 January 2013	292,203	31,907	324,110
Impairment charge	393,145	(1,050)	392,095
Written off during the year	(320,316)	(276)	(320,592)
Balance carried forward 31 December 2013 (audited)	365,032	30,581	395,613

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

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

5 Loans and advances, net (continued)

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

	Retail Loans AED'000	Corporate loans AED'000	Total AED'000
<u>Three months ended 30 June 2014 (reviewed)</u>			
Impairment charge /(release)	139,880	104	139,984
Recovery during the period	(11,956)	-	(11,956)
	<u>127,924</u>	<u>104</u>	<u>128,028</u>
<u>Three months ended 30 June 2013 (reviewed)</u>			
Impairment Charge/(release)	68,939	(94)	68,845
Recovery during the period	(12,127)	-	(12,127)
	<u>56,812</u>	<u>(94)</u>	<u>56,718</u>
	Retail loans AED'000	Corporate Loans AED'000	Total AED'000
<u>Six months ended 30 June 2014 (reviewed)</u>			
Impairment charge /(release)	286,801	244	287,045
Recovery during the period	(28,675)	-	(28,675)
	<u>258,126</u>	<u>244</u>	<u>258,370</u>
<u>Six months ended 30 June 2013 (reviewed)</u>			
Impairment charge/(release)	143,885	408	144,293
Recovery during the period	(26,145)	-	(26,145)
	<u>117,740</u>	<u>408</u>	<u>118,148</u>

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

5(e) Impaired loans and advances provision coverage

	30 June 2014 AED'000 (reviewed)	31 December 2013 AED'000 (audited)
Aggregate impaired loans	567,193	539,840
Provision held	475,713	395,613
Coverage ratio	<u>83.87%</u>	<u>73.28%</u>

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

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

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

6 Islamic Financing assets

6(a) Islamic Financing assets

Islamic retail financing asset	2,238,490	1,177,694
Total Islamic financing assets	2,238,490	1,177,694
Provision for impairment	(13,006)	(5,312)
	<u>2,225,484</u>	<u>1,172,382</u>

6(b) Analysis of Islamic financing assets

Islamic Salam personal finance	1,228,410	730,088
Islamic Auto murabaha	662,503	370,079
Islamic business Finance	228,345	34,938
Islamic Ijara Property Finance	13,557	-
Islamic credit cards	105,675	42,589
	<u>2,238,490</u>	<u>1,177,694</u>

7 Investment securities

	30 June 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Securities available-for-sale		
Quoted equity securities	49,295	-
Quoted debt securities	<u>42,361</u>	<u>42,268</u>
	91,656	42,268
Held for trading		
Quoted equity securities	9,229	-
Securities held-to-maturity		
Quoted debt securities	<u>3,449,737</u>	<u>2,653,684</u>
Total investment securities	<u>3,550,622</u>	<u>2,695,952</u>

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

	30 June 2014 AED'000	31 December 2013 AED'000
UAE	2,377,525	2,000,169
Other GCC countries	239,679	153,152
India	933,418	542,631
	<u>3,550,622</u>	<u>2,695,952</u>

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

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

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

7 Investment securities (continued)

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

	30 June 2014 AED'000	31 December 2013 AED'000
Federal and local Government – UAE	1,313,309	1,095,983
Government related entity – UAE	376,568	275,070
Government – GCC	94,148	94,280
Government related entity – GCC	86,711	-
Banks and financial institutions – UAE	678,419	629,115
Banks and financial institutions – GCC	58,820	58,873
Banks and financial institutions – Non UAE/GCC	605,972	304,117
Public limited companies – UAE	9,229	-
Public limited companies – Non UAE	327,446	238,514
	<u>3,550,622</u>	<u>2,695,952</u>

The movement in investment securities is as follows:

	Securities available- for- sale AED'000	Securities Held for trading AED'000	Securities held – to – maturity AED'000	Total AED'000
At 1 January 2014	42,268	-	2,653,684	2,695,952
Purchases	50,676	9,359	803,768	863,803
Net changes in fair value	(1,235)	(130)	-	(1,365)
Amortisation of premium	(53)	-	(7,715)	(7,768)
At 30 June 2014 (reviewed)	<u>91,656</u>	<u>9,229</u>	<u>3,449,737</u>	<u>3,550,622</u>
At 1 January 2013	42,688	-	1,544,190	1,586,878
Purchases	106,483	-	1,361,685	1,468,168
Disposals * / Maturities	(20,616)	-	(458,199)	(478,815)
Net changes in fair value	17,108	-	-	17,108
Amortisation of premium	-	-	(5,166)	(5,166)
At 30 June 2013(reviewed)	<u>145,663</u>	<u>-</u>	<u>2,442,510</u>	<u>2,588,173</u>

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

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

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

8 Property and equipment, net

	Land and buildings AED'000	Leasehold Improvements AED'000	Other fixed assets AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2014	609,162	119,378	764,082	41,982	1,534,604
Additions	-	-	6,176	14,248	20,424
Transfers	3,396	3,384	8,340	(15,120)	-
Disposals	-	-	(1,341)	-	(1,341)
At 30 June 2014	<u>612,558</u>	<u>122,762</u>	<u>777,257</u>	<u>41,110</u>	<u>1,553,687</u>
Accumulated Depreciation					
At 1 January 2014	66,255	72,602	366,874	-	505,731
Charge for the period	10,354	7,611	46,218	-	64,183
Disposals	-	-	(1,325)	-	(1,325)
At 30 June 2014	<u>76,609</u>	<u>80,213</u>	<u>411,767</u>	<u>-</u>	<u>568,589</u>
Net book amount	535,949	42,549	365,490	41,110	985,098
At 30 June 2014 (reviewed)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At 31 December 2013 (audited)	<u>542,907</u>	<u>46,776</u>	<u>397,208</u>	<u>41,982</u>	<u>1,028,873</u>

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

	Land and buildings AED'000	Leasehold improvements AED'000	Other fixed assets AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2013	519,473	105,228	672,990	121,540	1,419,231
Additions	14,522	74	9,691	42,452	66,739
Transfers	12,043	2,977	49,626	(64,646)	-
Disposals	(225)	-	(805)	-	(1,030)
At 30 June 2013	<u>545,813</u>	<u>108,279</u>	<u>731,502</u>	<u>99,346</u>	<u>1,484,940</u>
Accumulated Depreciation					
At 1 January 2013	48,074	59,425	275,959	-	383,458
Charge for the period	8,352	6,991	45,471	-	60,814
Disposals	(160)	-	(688)	-	(848)
At 30 June 2013	<u>56,266</u>	<u>66,416</u>	<u>320,742</u>	<u>-</u>	<u>443,424</u>
Net book amount					
At 30 June 2013 (reviewed)	<u>489,547</u>	<u>41,863</u>	<u>410,760</u>	<u>99,346</u>	<u>1,041,516</u>
At 31 December 2012 (audited)	<u>471,399</u>	<u>45,803</u>	<u>397,031</u>	<u>121,540</u>	<u>1,035,773</u>

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

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

.9 Other assets

	30 June 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Interest receivable	181,241	175,973
Profit receivable on Islamic financing assets	22,723	11,941
Prepayments and deposits	65,830	54,229
Others	43,344	34,395
	<u>313,138</u>	<u>276,538</u>

10 Deposits from customers

	30 June 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Time deposits	6,692,190	7,104,006
Current accounts	10,659,511	9,573,066
Savings deposits	3,883,755	3,416,942
Call deposits	1,697,982	1,010,673
Islamic customer deposits (Note 11)	2,562,597	1,964,460
	<u>25,496,035</u>	<u>23,069,147</u>

Time deposits include AED 282 million (2013: AED 255 million) held by the Group as cash collateral for loans and advances granted to customers.

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

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

11 Islamic customer deposits

	30 June 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Wakala deposits	1,357,748	1,017,385
Mudaraba term investment deposits	55,951	55,673
Qard-E-Hasan -current accounts	237,603	145,001
Mudaraba -current accounts	763,668	618,427
Mudaraba -savings deposits	142,253	125,376
Mudaraba-call deposits	5,374	2,598
	<u>2,562,597</u>	<u>1,964,460</u>

12 Other liabilities

	30 June 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Interest payable	33,312	39,738
Profit distributable on Islamic deposits	7,790	9,106
Accrued expenses	140,340	155,364
Managers cheques issued	201,800	150,123
Others	185,992	118,414
	<u>569,234</u>	<u>472,745</u>

13 Share capital and dividend

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

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

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

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

14 Other reserves

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

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

15 Contingencies and commitments

	30 June 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Commitments to extend credit	7,286,984	6,648,849
Letters of guarantee	670,324	570,353
Letters of credit	83,076	62,951
Acceptances	88,799	28,938
Capital commitments	13,530	11,937
	<u>8,142,713</u>	<u>7,323,028</u>

Commitments to extend credit represents unfunded amounts out of approved limits offered to customers, of which AED 7.2 billion (31 December 2013 AED 6.6 billion) are revocable at the discretion of the Group.

16 Forward foreign exchange and interest rate swap contracts

Forward foreign exchange contracts comprise commitments to purchase foreign and domestic currencies on behalf of customers and in respect of the Group's undelivered spot transactions. Interest rate swap contracts comprise of deals to convert fixed rate into a floater or vice versa.

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

	Contract amount AED'000	Fair value AED'000
30 June 2014 (reviewed)	695,649	492
31 December 2013 (audited)	<u>481,291</u>	<u>375</u>

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

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

16 Forward foreign exchange and interest rate swap contracts (continued)

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

Outstanding interest rate Swap transactions at 30 June 2014 and 31 December 2013 are as follows:

	Contract amount AED'000	Fair value AED'000
30 June 2014 (reviewed)	1,836,500	12,724
31 December 2013 (audited)	-	-

17 Interest income and expense

	Three months ended 30 June (reviewed)		Six months ended 30 June (reviewed)	
	2014 AED'000	2013 AED'000	2014 AED'000	2013 AED'000
Interest income				
Commercial loans and overdrafts	345,028	322,391	675,798	650,146
Retail loans	59,386	72,201	122,436	150,322
Mortgage Loans	52,132	54,947	104,202	111,120
Credit cards	160,068	151,134	313,081	303,132
Auto loans	34,389	30,043	67,397	57,177
Other banks	1,095	596	2,163	1,282
Investments securities	38,301	28,938	72,217	53,022
Deposits with the UAE Central Bank	986	949	1,834	1,889
Total interest income	691,385	661,199	1,359,128	1,328,090
Interest expense				
Due to customers	50,143	62,927	101,361	135,314
Euro Medium term notes	570	-	570	-
Borrowings from other banks	284	342	395	492
Total interest expense	50,997	63,269	102,326	135,806
Net interest income	640,388	597,930	1,256,802	1,192,284

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

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

18 Income from Islamic financing and distribution to depositors

	Three months ended 30 June (reviewed)		Six months ended 30 June (reviewed)	
	2014	2013	2014	2013
	AED'000	AED'000	AED'000	AED'000
Income from Islamic Financing				
Islamic Salam personal finance	22,587	7,157	40,195	7,630
Islamic auto Murabaha	10,889	1,479	18,969	1,606
Islamic business finance	8,961	-	12,963	-
Islamic investments	396	422	783	665
Islamic property finance	83	-	86	-
Total income from Islamic Financing	42,916	9,058	72,996	9,901
Distribution to Islamic depositors	(7,630)	(1,943)	(14,911)	(2,182)
Income from Islamic financing net of distribution to depositors	35,286	7,115	58,085	7,719

19 Net fees and commission income

	Three months ended 30 June (reviewed)		Six months ended 30 June (reviewed)	
	2014	2013	2014	2013
	AED'000	AED'000	AED'000	AED'000
Credit cards	52,853	43,427	98,769	88,365
Commercial loans	29,510	19,651	55,932	38,530
Retail loans	5,926	3,717	11,342	7,037
Mortgage loans	9,318	8,462	17,562	15,158
Auto loans	10,245	6,821	19,799	13,095
Trade finance	7,886	3,588	15,077	7,177
Fiduciary income	21,730	21,362	40,188	39,918
Others	32,784	28,290	61,087	55,616
	170,252	135,318	319,756	264,896

20 Investment income

	Three months ended 30 June (reviewed)		Six months ended 30 June (reviewed)	
	2014	2013	2014	2013
	AED'000	AED'000	AED'000	AED'000
Profit/(loss) – unrealised	(869)	-	(130)	-
Profit/(loss) – realised	-	13,014	-	13,014
Dividend and other income	573	6,163	2,174	6,322
	(296)	19,177	2,044	19,336

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

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

21 Earnings per share

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

22 Fiduciary activities

The Group holds assets in a fiduciary capacity for its customers without recourse to itself. At 30 June 2014, such assets amounted to AED 1,697.5 million (31 December 2013: AED 1,666.6 million) and are excluded from the condensed consolidated interim financial information of the Group.

23 Cash and cash equivalents

	At 30 June	
	2014 (reviewed) AED'000	2013 (reviewed) AED'000
Cash in hand and current account with the UAE Central Bank (Note 3)	707,662	664,650
Due from other banks (Note 4)	1,628,021	295,629
	<u>2,335,683</u>	<u>960,279</u>
Less due from other banks with original maturity of three months or more	(36,730)	-
	<u>2,298,953</u>	<u>960,279</u>

24 Operating segments

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

The Group has three main business segments:

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

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

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

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

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

24 Operating segments (continued)

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

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

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

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

	Retail banking AED'000	Commerci al banking AED'000	Treasury and others AED'000	Unallocated Cost AED'000	Total AED'000
30 June 2014					
Net external interest income	1,150,702	41,761	64,339	-	1,256,802
Income from Islamic financing net of distribution to depositors	58,085	-	-	-	58,085
Transfer pricing income / expense	(15,498)	6,452	9,046	-	-
Net Interest / Income from Islamic financing	1,193,289	48,213	73,385	-	1,314,887
Non interest income	329,977	31,405	22,751	-	384,133
Operating income	1,523,266	79,618	96,136	-	1,699,020
Operating expense excluding depreciation	(508,077)	(28,834)	(3,045)	(136,080)	(676,036)
Depreciation	(28,435)	(734)	(29)	(34,985)	(64,183)
Total Operating expense	(536,512)	(29,568)	(3,074)	(171,065)	(740,219)
Impairment charge net of write off / recovery	(258,126)	(244)	-	-	(258,370)
Net profit / (loss)	728,628	49,806	93,062	(171,065)	700,431
Segment assets	22,999,724	1,356,084	9,073,617	-	33,429,425
Unallocated assets	-	-	-	1,117,200	1,117,200
Total assets	22,999,724	1,356,084	9,073,617	1,117,200	34,546,625
Segment liabilities	20,223,504	3,760,390	3,733,341	-	27,717,235
Unallocated liabilities	-	-	-	452,247	452,247
Total liabilities	20,223,504	3,760,390	3,733,341	452,247	28,169,482

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

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

24 Operating segments (continued)

	Retail banking AED'000	Commercial banking AED'000	Treasury and others AED'000	Unallocated Cost AED'000	Total AED'000
30 June 2013					
Net external interest income	1,161,160	(13,037)	44,161	-	1,192,284
Income from Islamic financing net of distribution to depositors	8,318	(599)	-	-	7,719
Transfer pricing income / expense	(37,055)	25,052	12,003	-	-
Net Interest / Income from Islamic financing	1,132,423	11,416	56,164	-	1,200,003
Non interest income	272,130	31,679	38,297	-	342,106
Operating income	1,404,553	43,095	94,461	-	1,542,109
Operating expense excluding depreciation	(431,427)	(38,627)	(2,575)	(130,441)	(603,070)
Depreciation	(26,408)	(1,022)	(30)	(33,354)	(60,814)
Total Operating expense	(457,835)	(39,649)	(2,605)	(163,795)	(663,884)
Impairment charge net of (recovery) / write off	(117,740)	(408)	-	-	(118,148)
Net profit / (loss)	828,978	3,038	91,856	(163,795)	760,077
Segment assets	20,973,350	670,838	5,478,229	-	27,122,417
Unallocated assets				1,233,820	1,233,820
Total assets	20,973,350	670,838	5,478,229	1,233,820	28,356,237
Segment liabilities	12,841,197	7,656,267	1,602,663	-	22,100,127
Unallocated liabilities				393,253	393,253
Total liabilities	12,841,197	7,656,267	1,602,663	393,253	22,493,380

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

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

25 Related parties balances

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

	Six months ended 30 June	
	2014 (reviewed) AED'000	2013 (reviewed) AED'000
Transactions during the period		
Interest income	417	490
Interest expense	4,505	5,335
Commission income	895	414
Directors' remuneration	5,721	2,717
Remuneration payable to key management Personnel	7,167	7,274
	30 June 2014 (reviewed) AED'000	31 December 2013 (audited) AED'000
Balances		
Loans and advances:		
- Shareholders and their related companies	20,855	25,740
- Directors and their related companies	8,406	3,875
- Key management personnel	16,525	17,899
	<u>45,786</u>	<u>47,514</u>
Due to customers:		
- Shareholders and their related companies	1,312,003	1,073,772
- Directors and their related companies	99,236	78,247
- Key management personnel	9,189	9,748
	<u>1,420,428</u>	<u>1,161,767</u>
Commitments and contingent liabilities and forward contracts		
- Shareholders and their related companies	113,376	74,262
- Directors and their related companies	448	6,657
	<u>113,824</u>	<u>80,919</u>

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

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

26 Capital adequacy

Capital structure and capital adequacy as per Basel II requirement as at 30 June 2014

The Bank is required to report capital resources and risk-weighted assets under the Basel II Pillar 1 framework, as shown in the following table. The Bank has adopted standardised approach for calculation of credit risk and market risk capital charge. On operational risk, alternative standardized approach is followed for capital charge calculation under pillar1.

	30 June 2014 AED'000	31 December 2013 AED'000
Tier 1 capital		
Ordinary share capital	1,676,245	1,676,245
Share premium	110,350	110,350
Statutory and other reserves	3,275,801	3,277,036
Retained earnings	614,316	614,316
Total	<u>5,676,712</u>	<u>5,677,947</u>
Tier 2 capital	-	-
Total regulatory capital	<u>5,676,712</u>	<u>5,677,947</u>
Risk weighted assets		
Credit risk	20,960,988	18,720,220
Market risk	21,073	4,618
Operational risk	1,274,273	849,176
Total risk weighted assets	<u>22,256,334</u>	<u>19,574,014</u>
Capital adequacy ratio on regulatory capital	<u>25.51%</u>	<u>29.01%</u>
Capital adequacy ratio on Tier 1 capital	<u>25.51%</u>	<u>29.01%</u>

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

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

27 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 30 June 2014, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial asset and liability:

	Fair value		Carrying value	
	30 June 2014 AED'000	31 December 2013 AED'000	31 June 2014 AED'000	31 December 2013 AED'000
Financial assets				
Investment securities	3,673,258	2,674,235	3,550,622	2,695,952

28 Fair value hierarchy

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

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

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

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

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

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

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

28 Fair value hierarchy (continued)

30 June 2014	Quoted market prices Level 1 AED '000	Observable inputs Level 2 AED '000	Significant unobservable inputs Level 3 AED '000	Total AED'000
Asset at fair value				
Available for sale financial assets				
- Investment securities – debt	42,361	-	-	42,361
-Investment securities- Equity	49,295	-	-	49,295
Held for trading financial assets				
-Investment securities- Equity	9,229	-	-	9,229
Foreign currency forwards	-	492	-	492
Interest rate swaps		12,724	-	12,724
	<u>100,885</u>	<u>13,216</u>	<u>-</u>	<u>114,101</u>
31 December 2013				
Available for sale financial assets	-	-	-	-
- Investment securities – debt	42,268	-	-	42,268
Foreign currency forwards	-	375	-	375
	<u>42,268</u>	<u>375</u>	<u>-</u>	<u>42,643</u>

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

29 Debt security in issue

	30 June 2014 AED'000	31 December 2013 AED'000
USD 500 medium term note at discount	1,823,233	-
Less : Own investment in debt security issued	(176,306)	-
Less : Debt security issue costs	(10,004)	-
	<u>1,636,923</u>	<u>-</u>

The Group issued USD 500 million medium term note in June 2014 under its USD 1 billion medium term note programme through its subsidiary RAKFunding Cayman LTD. The note was issued at a discounted rate of 99.275%. The note matures in 2019 and carry a fixed interest rate of 3.25% per annum.