

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

**Report and financial statements  
for the year ended 31 December 2004**

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

### **Directors' report to the shareholders**

We are pleased to present the Annual Report of your bank for the year 2004. The performance of your bank during the year has been impressive and is the result of the strategic initiative rolled out in the last three years.

In addition to improving the various key performance indicators, the bank is also progressing well to achieve its internal benchmarks in terms of revenue diversification, centralisation of operations, investments in technology and emiritisation of the workforce.

### ***Financial Performance***

The net profit for 2004 was AED 129 million representing a 36% growth over 2003. While net interest income at AED 251 Million registered an increase of 38%, fee, commission and income from foreign exchange at AED 115 million grew by 59% in line with the bank's plan to increase non interest revenue through the offer of better products and services to its customers.

The retail banking division of the bank continues to remain the main source of income to the bank and has managed to build a strong customer base across all the products that it offers resulting in a profitable portfolio of Retail Loans, Credit Cards, Auto Loans, Mortgages and Investments. A new branch in Khorfakkan was opened during the year taking the total number of branches to 15.

Your bank continues to be seen as one of the leading retail banks in the UAE and is recognised as one of the top issuers of credit cards. Mastercard credit cards and Mortgage finance were launched in 2004 and remained hugely successful initiatives.

Low interest rates, selective corporate lending coupled with an unexpected non-performing asset resulted in a substantially lower contribution from the corporate banking division of the bank.

Total assets as at 31 December 2004 were AED 5.2 billion, a 39% increase from 2003 resulting mainly from a growth in loans and advances of AED 1.1 billion. The bank's investment portfolio is also being diversified and closed at AED 150 million compared to AED 59 million in December 2003.

The growth in the asset book has been supported by a combination of increases in customer deposits, medium term bank borrowings and an increase in shareholders funds. Customer deposits increased by AED1.1 billion during the year 2004 resulting from the bank's continued emphasis on increasing its liabilities in line with the growth in its assets.

The successful closure of the rights issue in March 2004 was followed by the distribution of cash and stock dividends for year ended 2003. Total shareholders' funds increased to AED 798 million. A total of 3.75 million shares of AED 10 each were issued at a premium of AED 5 per share on a rights basis.

The net charge for loan impairment amounted to AED 52 million in 2004 compared to AED 25 million in 2003 and this includes specific provision relating to both retail and corporate banking divisions of the bank.

Capital adequacy ratio at the year-end stood at 16.6 %, against a minimum of 10 % prescribed by the UAE Central Bank.

### ***Rating***

The Bank is currently rated by two of the leading rating agencies. Moody's Investors Service has retained the foreign currency deposit ratings of the Bank at Baa1/Prime-2, while Capital Intelligence has upgraded Long term foreign currency ratings to BBB from BBB- indicating a stable outlook.

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

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

#### ***Staff Share Save scheme***

On 4 March 2004, following the approval of the shareholders, the Bank issued 498,254 shares of AED 10 each at a premium of AED 5 per share from out of the rights entitlement of the shareholders to an employee share scheme of the Bank. These shares, along with the stock dividend received on these shares, were issued and vested to key management employees of the Bank with effect from 30 December 2004.

#### ***Dividend***

In view of the strong performance and after considering the best interest of the bank, the Directors have recommended a stock dividend of 20%. This prudent measure will allow the bank to ensure that future growth is supported by adequate shareholders funds.

#### ***Outlook for 2005***

With the economy expected to witness all around growth in UAE the banking sector can also expect another year of strong demand for credit in 2005. Some of the new initiatives that the bank plans to roll out in 2005 include the launch of its first co-branded credit card, installation of new Electronic Deposit Machines, introduction of kiosk banking and new branches to strengthen its delivery channels.

The bank plans to proceed with the listing of its shares in the securities market in UAE in 2005 that would further enhance the growth of the capital market in the UAE.

We are grateful for the continued whole-hearted support of His Highness Sheikh Saqr bin Mohamed Al-Qasimi and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the bank for their outstanding performance during 2004 and the Bank's customers for their continued support.

Board of Directors  
5 February 2005

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

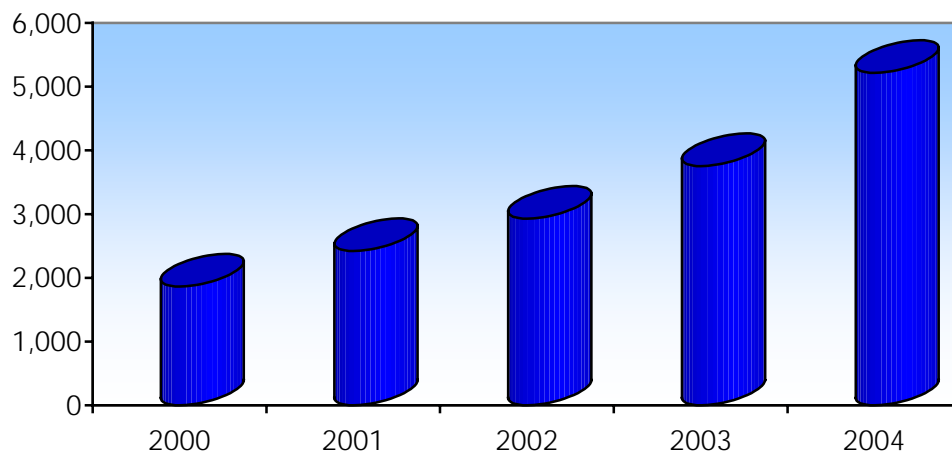
## Financial highlights

### Net Profit



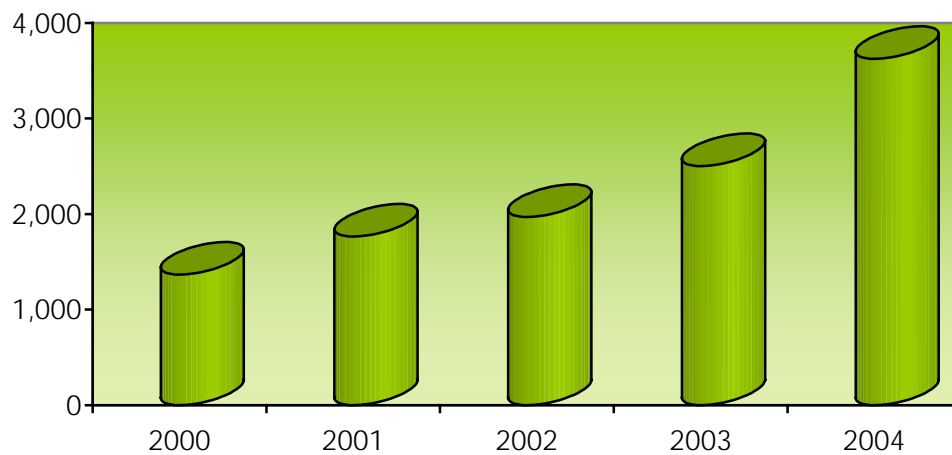
All figures shown are in millions of UAE Dirhams.

### Total Assets



All figures shown are in millions of UAE Dirhams.

### Customer Loans & Advances (net)

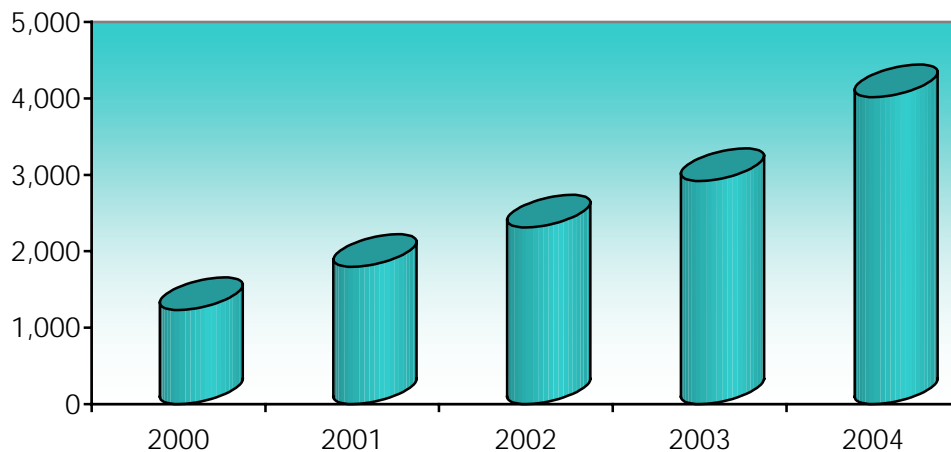


All figures shown are in millions of UAE Dirhams.

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

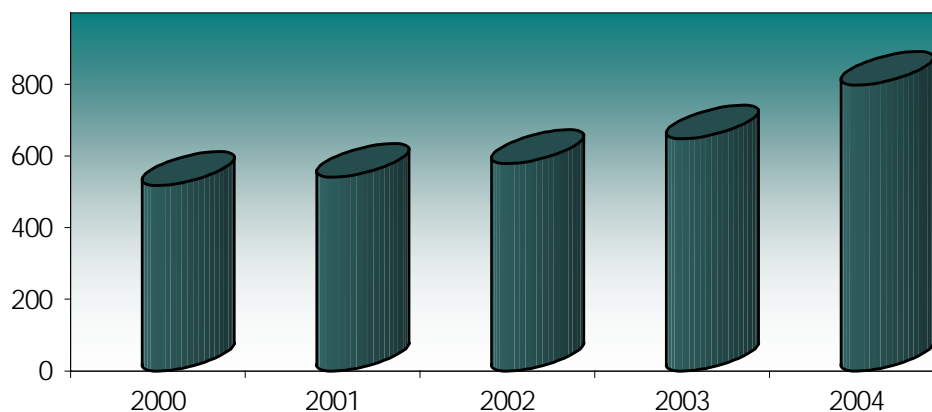
## Financial highlights (continued)

### Customer Deposits



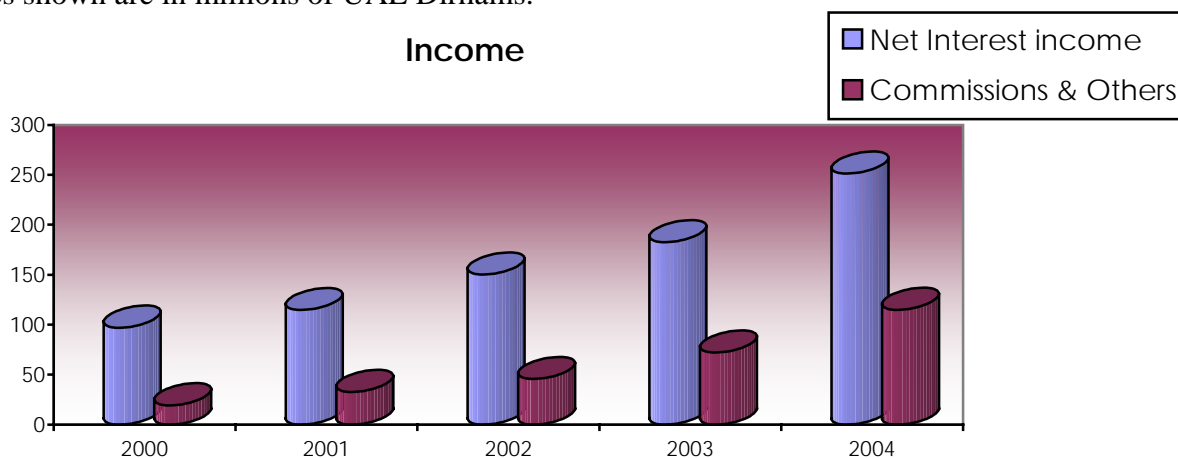
All figures shown are in millions of UAE Dirhams.

### Shareholders' Equity



All figures shown are in millions of UAE Dirhams.

### Income



All figures shown are in millions of UAE Dirhams.

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

We have audited the accompanying balance sheet of The National Bank of Ras Al-Khaimah (P.S.C.) ("the bank") as at 31 December 2004 and the related statements of income and cash flows for the year then ended. These financial statements are the responsibility of the Directors of the bank. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements present fairly, in all material respects, the financial position of the bank as at 31 December 2004 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, and the UAE Union Law No (10) of 1980, as amended.

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

1. we have obtained all the information we considered necessary for the purpose of our audit;
2. the bank has maintained proper books of account and the financial statements are in agreement therewith;
3. the financial information included in the Directors' report is consistent with the books of account of the bank; and
4. nothing has come to our attention, which causes us to believe that the bank has breached any of the provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2004.

PricewaterhouseCoopers  
5 February 2005

Amin H Nasser  
Registered Auditor Number 307

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

### Balance sheet at 31 December 2004

	Notes	2004 AED'000	2003 AED'000
<b>ASSETS</b>			
Cash and balances with the UAE Central Bank	3	818,226	652,899
Due from other banks	4	487,593	425,336
Originated loans and advances	5	3,625,773	2,502,581
Originated debt security		105,095	50,000
Investment securities	6	45,840	9,587
Property and equipment	7	61,858	58,845
Investment property	8	4,022	11,932
Other assets	9	67,736	43,882
<b>Total assets</b>		<u>5,216,143</u>	<u>3,755,062</u>
<b>LIABILITIES</b>			
Due to other banks	10	304,389	138,666
Due to customers	11	4,015,371	2,916,601
Other liabilities	12	88,343	43,885
Provision for employees' end of service benefits	13	9,707	7,980
<b>Total liabilities</b>		<u>4,417,810</u>	<u>3,107,132</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	14	343,750	275,000
Share premium	15	110,350	91,600
Retained earnings		126,858	104,799
Other reserves	16	217,375	176,531
<b>Total shareholders' equity</b>		<u>798,333</u>	<u>647,930</u>
<b>Total liabilities and shareholders' equity</b>		<u>5,216,143</u>	<u>3,755,062</u>

These financial statements have been approved by the Board of Directors on 5 February 2005 and were signed on its behalf by:

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

.....  
Graham Honeybill  
General Manager

The notes on pages 10 to 33 form an integral part of these financial statements.



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

### Statement of income for the year ended 31 December 2004

	Notes	2004 AED'000	2003 AED'000
Interest income	19	314,974	225,589
Interest expense	19	(63,733)	(43,051)
<b>Net interest income</b>		<u>251,241</u>	<u>182,538</u>
Fee and commission income	20	88,090	64,275
Foreign exchange income		7,379	5,760
Other operating income		19,315	1,977
<b>Operating income</b>		<u>366,025</u>	<u>254,550</u>
Operating expenses	21	(184,717)	(134,509)
Provision for impairment of originated loans and advances	5(e)	(52,080)	(24,986)
<b>Net profit for the year</b>		<u><u>129,228</u></u>	<u><u>95,055</u></u>
<b>Earnings per share</b>			
Basic and diluted	23	<u><u>AED 3.78</u></u>	<u><u>AED 2.84</u></u>

The notes on pages 10 to 33 form an integral part of these financial statements.

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

### Statement of changes in shareholders' equity for the year ended 31 December 2004

	Notes	Number of shares '000	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Total AED'000
<b>At 1 January 2003</b>		25,000	250,000	91,600	85,024	152,031	578,655
Net profit for the year		-	-	-	95,055	-	95,055
Transfer to legal reserve	16	-	-	-	(9,505)	9,505	-
Transfer to voluntary reserve	16	-	-	-	(5,000)	5,000	-
Transfer to general banking risk reserve	16	-	-	-	(4,995)	4,995	-
Transfer to credit risk reserve	16	-	-	-	(5,000)	5,000	-
Issue of bonus shares	24	2,500	25,000	-	(25,000)	-	-
Dividend paid for 2002	24	-	-	-	(25,000)	-	(25,000)
Directors' remuneration		-	-	-	(780)	-	(780)
<b>At 31 December 2003</b>		<u>27,500</u>	<u>275,000</u>	<u>91,600</u>	<u>104,799</u>	<u>176,531</u>	<u>647,930</u>
Net profit for the year		-	-	-	129,228	-	129,228
Transfer to legal reserve	16	-	-	-	(12,922)	12,922	-
Transfer to voluntary reserve	16	-	-	-	(12,922)	12,922	-
Transfer to general banking risk reserve	16	-	-	-	(5,000)	5,000	-
Transfer to credit risk reserve	16	-	-	-	(10,000)	10,000	-
Issue of rights shares	14	3,750	37,500	18,750	-	-	56,250
Issue of bonus shares	24	3,125	31,250	-	(31,250)	-	-
Dividend paid for 2003	24	-	-	-	(34,375)	-	(34,375)
Directors' remuneration		-	-	-	(700)	-	(700)
<b>At 31 December 2004</b>		<u><u>34,375</u></u>	<u><u>343,750</u></u>	<u><u>110,350</u></u>	<u><u>126,858</u></u>	<u><u>217,375</u></u>	<u><u>798,333</u></u>

The notes on pages 10 to 33 form an integral part of these financial statements.

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

### Statement of cash flows for the year ended 31 December 2004

	Notes	2004 AED'000	2003 AED'000
<b>Operating activities</b>			
Net profit for the year		129,228	95,055
Adjustments:			
Net charge for provision for impairment of originated loans and advances, excluding amounts identified and written off during the year	5(e)	47,147	21,862
Depreciation	21	12,547	11,890
Provision for employees' end of service benefits (net)	13	1,727	1,605
Gain on disposal of property and equipment		(130)	(165)
Gain on disposal and fair value gains on investment securities		(12,260)	-
Operating cash flows before changes in assets and liabilities		178,259	130,247
Changes in assets and liabilities:			
Deposits with the UAE Central Bank	3,26	(136,791)	(416,680)
Due from other banks with maturities over 3 months		16,203	(16,203)
Originated loans and advances net of provisions and amounts written off	5	(1,170,339)	(553,560)
Other assets	9	(23,854)	(23,932)
Due to other banks	10	165,723	136,301
Due to customers	11	1,098,770	605,290
Other liabilities excluding directors' remuneration	12	44,538	11,593
Net cash provided by / (used in) operating activities		172,509	(126,944)
<b>Investing activities</b>			
Purchase of debt security		(55,095)	(50,000)
Purchase of Investments		(29,789)	-
Proceeds from sale of securities		5,796	-
Purchase of property and equipment (net of sale proceeds)		(15,430)	(17,397)
Proceeds from sale of investment property		7,910	-
Net cash used in investing activities		(86,608)	(67,397)
<b>Financing activities</b>			
Dividend paid	24	(34,375)	(25,000)
Directors' remuneration paid		(780)	(165)
Proceeds from rights issue of shares		56,250	-
Net cash provided by / (used in) financing activities		21,095	(25,165)
<b>Net increase/ (decrease) in cash and cash equivalents</b>		106,996	(219,506)
Cash and cash equivalents, beginning of the year		499,234	718,740
Cash and cash equivalents, end of the year	26	606,230	499,234

The notes on pages 10 to 33 form an integral part of these financial statements.

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

## **Notes to the financial statements for the year ended 31 December 2004**

### **1 Incorporation**

The National Bank of Ras Al-Khaimah (“the bank”) is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates (“UAE”). The head office of the bank is located at the National Bank of Ras Al-Khaimah building, Oman Street, Al Nakheel, Ras Al-Khaimah.

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

### **2 Significant accounting policies**

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

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

The financial statements are prepared in accordance with and comply with International Financial Reporting Standards, including International Accounting Standards (“IAS”) and Interpretations issued by the International Accounting Standards Board. The financial statements are prepared under the historical cost convention as modified by the revaluation of available-for-sale investment securities.

#### **(b) Originated loans and advances and provision for impairment**

Loans originated by the bank by providing money directly to the borrower are carried at amortised cost. All loans and advances are recognised when cash is advanced to the borrowers.

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

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

When a loan is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the 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 2004 (continued)

#### 2 Significant accounting policies (continued)

##### (c) Originated debt security

Originated debt security represents funds provided directly to the issuer and, accordingly, is stated at amortised cost less provision for impairment.

##### (d) Investment securities

The bank has classified its investment securities into the following two categories: held-to-maturity and available-for sale assets. Investment securities with fixed maturity, fixed and determinable payments and where management has both the intent and the ability to hold to maturity, are classified as held-to-maturity. Investment securities intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale. Management determines the appropriate classification of its investments at the time of purchase.

Investment securities are initially recognised at cost (which includes transaction costs). Available-for-sale investment securities are subsequently re-measured at fair value based on quoted bid prices. Fair values for unquoted equity instruments are estimated using the applicable price/earnings ratio refined to reflect the specific circumstances of the issuer. Unrealised gains and losses arising from changes in the fair value of securities classified as available-for-sale are recognised in the income statement. Held-to-maturity investments are carried at amortised cost, less any provision for impairment. The amount of impairment is calculated as the difference between the asset's carrying amount and the present value of expected future cash flows discounted at the original effective interest rate.

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

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

##### (e) Property and equipment

Property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	15
Computer equipment	4 - 10
Furniture, fixtures and equipment	4 - 5
Leasehold improvements	2 - 5
Motor vehicles	3 - 4

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

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

### **Notes to the financial statements for the year ended 31 December 2004** (continued)

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

##### **(e) Property and equipment** (continued)

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount. Gains and losses on disposal of property and equipment are determined by reference to their carrying amount and are taken into account in determining operating profit. Repairs and renewals are charged to the statement of income when the expenditure is incurred.

##### **(f) Investment property**

Investment property represents investment in land and is stated at cost less any provision for impairment losses.

##### **(g) Employee benefits**

A provision is made for the estimated liability for annual leave airfares as a result of services rendered by employees up to the balance sheet date. This provision is included in other liabilities.

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

##### **(h) 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.

##### **(i) Foreign currencies**

Foreign currency transactions are translated into UAE Dirhams at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the balance sheet date. Any resultant gains or losses are accounted for in the statement of income.

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

### **Notes to the financial statements for the year ended 31 December 2004** (continued)

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

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

Interest income and expense are recognised in the income statement on an accrual basis. Interest income is suspended when originated loans and advances become doubtful of collection, such as when overdue by more than 90 days for personal loans and 180 days for corporate loans, or, when the borrower defaults irrespective of the overdue days. Such income is excluded from interest income until received.

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

Fee income is charged to customers for services such as loan application processing, transfers, and opening of accounts. Income is recognised when the underlying transaction is completed.

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

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

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

##### **(m) Fiduciary assets**

Assets and income arising on the bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these financial statements.

##### **(n) Segmental reporting**

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

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

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

	2004 AED'000	2003 AED'000
Cash in hand	65,041	73,721
Current account with the UAE Central Bank	18,596	16,380
Statutory deposit with the UAE Central Bank	182,589	130,798
Certificates of deposit with the UAE Central Bank	552,000	432,000
	<u>818,226</u>	<u>652,899</u>

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

#### 4 Due from other banks

	2004 AED'000	2003 AED'000
Placements with other banks	480,905	418,292
Demand deposits	6,688	7,044
	<u>487,593</u>	<u>425,336</u>
<b>By geographical area:</b>		
Within UAE	232,048	272,350
OECD countries	179,738	96,383
Others	75,807	56,603
	<u>487,593</u>	<u>425,336</u>



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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 5 Originated loans and advances

	Notes	2004 AED'000	2003 AED'000
<b>5(a) Loans and advances</b>			
Loans		3,275,496	2,172,898
Overdrafts		527,147	425,244
Loans against trust receipts		43,436	58,383
Bills discounted		7,547	17,475
Others		1,965	1,009
<b>Total loans and advances</b>	5 (b)	<u>3,855,591</u>	<u>2,675,009</u>
Provision for impairment	5 (c)	(180,753)	(136,634)
Interest in suspense	5 (d)	(49,065)	(35,794)
<b>Total provision for impairment and interest in suspense</b>		<u>(229,818)</u>	<u>(172,428)</u>
<b>Net loans and advances</b>		<u><u>3,625,773</u></u>	<u><u>2,502,581</u></u>
<b>5(b) By economic sector</b>			
Wholesale and retail trade		131,620	161,692
Mining and quarrying		32,791	43,359
Government		105,383	101,211
Construction		123,746	216,466
Manufacturing		167,915	92,636
Transport and communication		46,758	20,059
Financial institutions		14,166	9,098
Services		116,949	104,996
Personal loans and others		3,116,263	1,925,492
		<u><u>3,855,591</u></u>	<u><u>2,675,009</u></u>

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 5 Originated loans and advances (continued)

	2004 AED'000	2003 AED'000
<b>5(c) Provision for impairment</b>		
<b>Balance brought forward</b>	136,634	117,453
Provision made during the year	72,389	28,324
Provision released during the year	(25,242)	(6,462)
Written off during the year	(3,028)	(2,681)
<b>Balance carried forward</b>	<u>180,753</u>	<u>136,634</u>

The provision for impairment comprises AED 121.76 million (2003: AED 65.8 million) set aside in respect of specific bad and doubtful loans and AED 58.98 million (2003: AED 70.8 million) to cover the risk inherent in the portfolio.

The provision against the risk inherent in the portfolio comprises the minimum regulatory provision in accordance with the UAE Central Bank requirements, as enhanced by an additional provision approved by the Board of Directors after reviewing current economic factors and their potential effect on the portfolio.

	2004 AED'000	2003 AED'000
<b>5(d) Interest in suspense</b>		
<b>Balance brought forward</b>	35,794	27,530
Accrued during the year	18,686	11,744
Released during the year	(5,081)	(2,681)
Written off during the year	(334)	(799)
<b>Balance carried forward</b>	<u>49,065</u>	<u>35,794</u>
<b>5(e) Net charge for the year</b>		
Provision made during the year	72,389	28,324
Provision released during the year	(25,242)	(6,462)
Write off during the year	4,933	3,124
	<u>52,080</u>	<u>24,986</u>

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 5 Originated loans and advances (continued)

##### 5(f) Classified loans and advances

At 31 December 2004, the aggregate amount of non-performing loans on which interest was not being accrued amounted to AED 186.77 million (2003: AED 109.3 million). Interest in suspense and provisions in relation to such loans amounted to AED 170.83 million as at 31 December 2004 (2003: AED 101.6 million).

At 31 December 2004 the aggregate amount of secured loans amounted to AED1,167 million (2003: AED 619 million).

#### 6 Investment securities

	2004 AED'000	2003 AED'000
<b>Securities available-for-sale</b>		
Quoted equity securities	16,050	-
Unquoted equity securities	-	5,283
	<u>16,050</u>	<u>5,283</u>
<b>Securities held-to-maturity</b>		
Quoted debt security	29,790	-
Funds placed under management	-	5,065
Provision for impairment	-	(761)
	<u>29,790</u>	<u>4,304</u>
<b>Total investment securities</b>	<u>45,840</u>	<u>9,587</u>

During the year ended 31 December 2004, the available-for-sale equity securities, which were previously unquoted, were listed on the Abu Dhabi Stock Market. Accordingly, these have been reclassified at fair value to quoted equity securities.

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

**Notes to the financial statements for the year ended 31 December 2004** (continued)

**7 Property and equipment**

	<b>Land and Buildings</b> AED'000	<b>Computer equipment</b> AED'000	<b>Furniture, fixtures and equipment</b> AED'000	<b>Leasehold improvements</b> AED'000	<b>Motor vehicles</b> AED'000	<b>Total</b> AED'000
<b>Cost</b>						
1 January 2004	37,162	30,826	16,299	12,334	1,156	97,777
Additions	-	8,528	3,857	3,055	203	15,643
Disposals/write off	-	(725)	(336)	-	(242)	(1,303)
31 December 2004	<u>37,162</u>	<u>38,629</u>	<u>19,820</u>	<u>15,389</u>	<u>1,117</u>	<u>112,117</u>
<b>Depreciation</b>						
1 January 2004	5,661	17,606	8,873	6,154	638	38,932
Charge for the year	882	6,043	3,381	1,945	296	12,547
Disposals/write off	-	(724)	(254)	-	(242)	(1,220)
31 December 2004	<u>6,543</u>	<u>22,925</u>	<u>12,000</u>	<u>8,099</u>	<u>692</u>	<u>50,259</u>
<b>Net book amount</b>						
31 December 2004	<u>30,619</u>	<u>15,704</u>	<u>7,820</u>	<u>7,290</u>	<u>425</u>	<u>61,858</u>
31 December 2003	<u>31,501</u>	<u>13,220</u>	<u>7,426</u>	<u>6,180</u>	<u>518</u>	<u>58,845</u>

Included in land and buildings is land costing AED 24.05 million (2003: AED 24.05 million), which is not depreciated.

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 8 Investment property

Investment property comprises of land acquired by the bank in partial settlement of a delinquent credit facility. The disposal of this land is subject to the terms and conditions of the debt settlement agreement.

	2004 AED'000	2003 AED'000
<b>9 Other assets</b>		
Interest receivable	18,376	6,603
Prepayments and deposits	9,564	5,227
Cheques held for collection	29,236	24,329
Others	10,560	7,723
	<u>67,736</u>	<u>43,882</u>

#### 10 Due to other banks

Term deposits	291,825	136,500
Demand deposits	12,564	2,166
	<u>304,389</u>	<u>138,666</u>

##### By geographical area:

Within UAE	292,783	137,739
OECD countries	11,606	856
Others	-	71
	<u>304,389</u>	<u>138,666</u>

#### 11 Due to customers

Time deposits	2,738,530	2,052,641
Savings deposits	181,621	144,681
Call deposits	205,715	206,104
Current accounts	889,505	513,175
	<u>4,015,371</u>	<u>2,916,601</u>

23% (2003: 25%) of the customer deposits were sourced from 6 customers at 31 December 2004.

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 12 Other liabilities

	2004 AED'000	2003 AED'000
Interest payable	27,986	13,113
Accrued expenses	14,573	10,165
Directors' remuneration	700	780
Managers cheques issued	25,184	12,190
Others	19,900	7,637
	<u>88,343</u>	<u>43,885</u>

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

	2004 AED'000	2003 AED'000
At 1 January	7,980	6,375
Charge for the year (Note 22)	2,788	2,238
Payment during the year	(1,061)	(633)
At 31 December	<u>9,707</u>	<u>7,980</u>

In accordance with the provisions of IAS 19, the bank carried out an exercise to assess the present value of its obligations at 31 December 2004 and 31 December 2003, in respect of employees' end of service benefits payable under the UAE Labour Law. The present value of the obligations at 31 December 2004 and 31 December 2003, using actuarial assumptions, were not materially different from the provisions computed in accordance with the UAE Labour Law.

#### 14 Share capital

The authorised, issued and fully paid share capital of the bank comprises 34,375,000 (2003: 27,500,000) shares of AED10 each.

On 4 March 2004, the bank issued 3,251,746 shares of AED 10 each to the shareholders at a premium of AED 5 per share. On the same date, following the approval of the shareholders, the Bank also issued 498,254 shares of AED 10 each at a premium of AED 5 per share from out of the rights entitlement of the shareholders to an employee share scheme of the Bank. These shares, alongwith the stock dividend received on these shares, were issued and vested to key management employees of the Bank with effect from 30 December 2004.

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 14 Share capital (continued)

At the annual general meeting of the shareholders held on 20 March 2004, the shareholders of the bank approved a stock dividend (issue of bonus shares) in respect of 2003 at 10% of the issued and paid up capital amounting to AED 31.25 million (Note 24).

#### 15 Share premium

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

#### 16 Other reserves

	<b>Legal reserve</b> AED'000	<b>Voluntary reserve</b> AED'000	<b>General banking risk reserve</b> AED'000	<b>Credit risk reserve</b> AED'000	<b>Total</b> AED'000
<b>At 1 January 2003</b>	62,026	50,000	40,005	-	152,031
Transfer during the year	9,505	5,000	4,995	5,000	24,500
<b>At 31 December 2003</b>	71,531	55,000	45,000	5,000	176,531
Transfer during the year	12,922	12,922	5,000	10,000	40,844
<b>At 31 December 2004</b>	84,453	67,922	50,000	15,000	217,375

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 16 Other reserves (continued)

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 issued share capital. This reserve is available for distribution.

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

The bank has also established a special reserve for credit risk. Contributions to this reserve are voluntary and made at the discretion of the Directors.

	2004 AED'000	2003 AED'000
<b>17 Contingencies and commitments</b>		
Guarantees	650,514	495,004
Letters of credit	161,175	95,688
Acceptances	31,587	54,882
Commitments to extend credit	493,189	496,462
Other	1,841	2,823
	<u>1,338,306</u>	<u>1,144,859</u>

#### By geographical area:

Within UAE	1,107,740	981,973
OECD countries	200,978	138,945
Others	29,588	23,941
	<u>1,338,306</u>	<u>1,144,859</u>

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



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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 17 Contingencies and commitments (continued)

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

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

#### 18 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 propriety activity and undelivered spot transactions.

The bank has entered into the following forward exchange transactions.

	Contract amount AED'000
31 December 2004	9,809
	=====
31 December 2003	70,604
	=====

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

	2004 AED'000	2003 AED'000
<b>19 Interest income and expense</b>		
<b>Interest income</b>		
Personal loans	147,843	117,378
Commercial loans and overdrafts	49,043	42,964
Other banks	2,986	4,779
Credit cards	58,148	26,685
Auto loans	43,022	24,145
Deposits with the UAE Central Bank	9,499	5,709
Others	4,433	3,929
	<u>314,974</u>	<u>225,589</u>
<b>Interest expense</b>		
Due to customers	57,137	41,924
Borrowings from other banks	6,596	1,127
	<u>63,733</u>	<u>43,051</u>
<b>20 Fee and commission income</b>		
Fees and commission	64,680	44,692
Transfers	1,020	997
Documentary credits and guarantees	6,190	5,739
Others	16,200	12,847
	<u>88,090</u>	<u>64,275</u>
<b>21 Operating expenses</b>		
Staff costs (Note 22)	78,906	67,422
Occupancy costs	9,353	7,580
Depreciation (Note 7)	12,547	11,890
Services	9,633	6,636
Computer expenses	4,088	3,584
Marketing expenses	16,200	6,851
Others	53,990	30,546
	<u>184,717</u>	<u>134,509</u>

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

	2004 AED'000	2003 AED'000
<b>22 Staff costs</b>		
Salaries and allowances	69,742	60,067
Pension	1,942	1,828
End of service benefits (Note 13)	2,788	2,238
Staff training	856	1,192
Others	3,578	2,097
	<u>78,906</u>	<u>67,422</u>
Number of employees at 31 December	<u>554</u>	<u>441</u>

### 23 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.

	2004	2003
Net profit for the year in AED	129,227,998	95,055,344
Weighted average number of shares in issue	34,220,000	33,488,000
Basic earnings per share in AED	3.78	2.84

There were no potentially dilutive shares as at 31 December 2004 and 31 December 2003.

### 24 Dividends

At the Annual General Meeting of the shareholders held on 20 March 2004, the following dividend was approved for 2003:

- a cash dividend of AED 1.1 per share (2002: AED 1 per share) amounting to AED 34.375 million (2002: AED 25 million).
- a stock dividend (issue of bonus shares) at 10% of the issued and paid up capital amounting to AED 31.25 million (2002: AED 25 million).

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 24 Dividends (continued)

At the meeting held on 5 February 2005, the Board of Directors proposed a stock dividend (issue of bonus shares) at 20% of the issued and paid up capital as at the date of the annual general meeting amounting to a maximum of AED 68.75 million in respect of year 2004 (2003: AED 31.25 million).

Dividends are not accounted for until they have been ratified at the annual general meeting and accordingly, the proposed dividend will be accounted for as an appropriation of retained earnings in the year ending 31 December 2005 after it has been ratified by the shareholders.

#### 25 Related party transactions

Related parties comprise businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. During the year, the bank entered into the following significant transactions with related parties in the ordinary course of business. These transactions were carried out on terms and conditions, and at rates, which were applicable to third parties for similar transactions.

	2004 AED'000	2003 AED'000
Loans and advances at 31 December	17,829	18,125
Due to customers at 31 December	36,262	39,627
Interest income for the year	269	335
Interest expense for the year	37	112
Commission income	107	-
Irrevocable commitments and contingent liabilities at 31 December	13,410	13,430

#### 26 Cash and cash equivalents

Cash (Note 3)	65,041	73,721
Current account with UAE Central Bank (Note 3)	18,596	16,380
Certificate of deposit with UAE Central Bank	35,000	-
Due from other banks	487,593	409,133
	<u>606,230</u>	<u>499,234</u>

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 27 Business segments

The bank is organised into three main business segments:

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

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

Treasury - incorporating activities of the dealing room, related money market, foreign exchange transactions with other banks and financial institutions including the UAE Central Bank, none of which constitute a separately reportable segment.

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

#### Primary segment information

	<b>Retail banking</b> AED'000	<b>Corporate banking</b> AED'000	<b>Treasury and others</b> AED'000	<b>Total</b> AED'000
<b>31 December 2004</b>				
Operating income	312,609	23,431	29,985	366,025
Segment result	137,284	(1,521)	15,043	150,806
Unallocated costs	-	-	-	(21,578)
<b>Net profit for the year</b>				<b>129,228</b>
Segment assets	3,370,577	421,345	1,386,919	5,178,841
Unallocated assets	-	-	-	37,302
<b>Total assets</b>				<b>5,216,143</b>
Segment liabilities	2,713,385	859,292	794,093	4,366,770
Unallocated liabilities	-	-	-	51,040
<b>Total liabilities</b>				<b>4,417,810</b>

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 27 Business segments (continued)

##### Primary segment information

	<b>Retail banking</b> AED'000	<b>Corporate banking</b> AED'000	<b>Treasury and others</b> AED'000	<b>Total</b> AED'000
<b>31 December 2003</b>				
Operating income	220,920	24,928	8,702	254,550
Segment result	108,726	19,011	4,999	132,736
Unallocated costs	-	-	-	(37,681)
<b>Net profit for the year</b>				<u>95,055</u>
Segment assets	2,056,300	616,094	1,068,237	3,740,631
Unallocated assets	-	-	-	14,431
<b>Total assets</b>				<u>3,755,062</u>
Segment liabilities	1,674,989	852,652	560,185	3,087,826
Unallocated liabilities	-	-	-	19,306
<b>Total liabilities</b>				<u>3,107,132</u>

#### 28 Geographical concentration of assets and liabilities

	<b>Total assets</b> AED'000	<b>Total liabilities</b> AED'000
<b>At 31 December 2004</b>		
Within UAE	4,928,670	4,168,870
OECD countries	198,103	127,610
Others	89,370	121,330
	<u>5,216,143</u>	<u>4,417,810</u>
<b>At 31 December 2003</b>		
Within UAE	3,597,166	3,049,248
OECD countries	100,687	14,110
Others	57,209	43,774
	<u>3,755,062</u>	<u>3,107,132</u>

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 29 Currency risk

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

At 31 December 2004	AED AED'000	USD AED'000	Others AED'000	Total AED'000
<b>Assets</b>				
Cash and balances with the UAE				
Central Bank	783,643	34,583	-	818,226
Due from other banks	101,634	349,378	36,581	487,593
Originated loans and advances	3,576,138	28,204	21,431	3,625,773
Originated debt security	50,000	55,095	-	105,095
Investment securities	45,840	-	-	45,840
Property and equipment, investment property and other assets	131,744	1,725	147	133,616
<b>Total assets</b>	<u>4,688,999</u>	<u>468,985</u>	<u>58,159</u>	<u>5,216,143</u>
<b>Liabilities</b>				
Due to other banks	200,957	102,832	600	304,389
Due to customers	3,577,291	386,917	51,163	4,015,371
Other liabilities and provision for employees' end of service benefits	95,065	2,747	238	98,050
<b>Total liabilities</b>	<u>3,873,313</u>	<u>492,496</u>	<u>52,001</u>	<u>4,417,810</u>
<b>Net balance sheet position</b>	<u>815,686</u>	<u>(23,511)</u>	<u>6,158</u>	<u>798,333</u>
<b>At 31 December 2003</b>				
Total assets	<u>3,324,592</u>	<u>381,864</u>	<u>48,606</u>	<u>3,755,062</u>
Total liabilities	<u>2,672,225</u>	<u>386,998</u>	<u>47,909</u>	<u>3,107,132</u>
Net balance sheet position	<u>652,367</u>	<u>(5,134)</u>	<u>697</u>	<u>647,930</u>

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 30 Interest rate risk

##### Interest sensitivity of assets and liabilities

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

	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non- interest bearing AED'000	Total AED'000	Effective interest rate %
<b>At 31 December 2004</b>						
<b>Assets</b>						
Cash and balances with the UAE Central Bank	137,000	415,000	-	266,226	818,226	1.63
Due from other banks	480,905	-	-	6,688	487,593	2.26
Original loans and advances	1,074,780	575,115	1,967,520	8,358	3,625,773	9.49
Originated debt security	36,730	68,365	-	-	105,095	3.06
Investment securities	-	29,790	-	16,050	45,840	3.11
Property and equipment, investment property and other assets	-	-	-	133,616	133,616	-
<b>Total</b>	<b>1,729,415</b>	<b>1,088,270</b>	<b>1,967,520</b>	<b>430,938</b>	<b>5,216,143</b>	
<b>Liabilities and shareholders' equity</b>						
Due to other banks	-	291,825	-	12,564	304,389	3.07
Due to customers	1,957,577	1,308,044	46,056	703,694	4,015,371	2.04
Other liabilities and provision for employees' end of service benefits	-	-	-	98,050	98,050	-
Shareholders' equity	-	-	-	798,333	798,333	-
<b>Total</b>	<b>1,957,577</b>	<b>1,599,869</b>	<b>46,056</b>	<b>1,612,641</b>	<b>5,216,143</b>	
<b>Interest rate sensitivity gap</b>	<b>(228,162)</b>	<b>(511,599)</b>	<b>1,921,464</b>	<b>(1,181,703)</b>		



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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 30 Interest rate risk (continued)

	Less than 3 months AED'000	From 3 months to 1 year AED'000	Over 1 year AED'000	Non- interest bearing AED'000	Total AED'000	Effective interest rate %
<b>At 31 December 2003</b>						
<b>Assets</b>						
Cash and balances with the UAE Central Bank	50,000	230,000	152,000	220,899	652,899	1.66
Due from other banks	418,292	-	-	7,044	425,336	1.37
Original loans and advances	906,434	421,865	1,172,699	1,583	2,502,581	9.14
Originated debt security	-	-	50,000	-	50,000	3.11
Investment securities	-	-	4,304	5,283	9,587	0.23
Property and equipment, investment property and other assets	-	-	-	114,659	114,659	-
<b>Total</b>	<b>1,374,726</b>	<b>651,865</b>	<b>1,379,003</b>	<b>349,468</b>	<b>3,755,062</b>	
<b>Liabilities and shareholders' equity</b>						
Due to other banks	136,500	-	-	2,166	138,666	1.98
Due to customers	1,324,734	1,074,909	115,294	401,664	2,916,601	1.77
Other liabilities and provision for employees' end of service benefits	-	-	-	51,865	51,865	-
Shareholders' equity	-	-	-	647,930	647,930	-
<b>Total</b>	<b>1,461,234</b>	<b>1,074,909</b>	<b>115,294</b>	<b>1,103,625</b>	<b>3,755,062</b>	
<b>Interest rate sensitivity gap</b>	<b>(86,508)</b>	<b>(423,044)</b>	<b>1,263,709</b>	<b>(754,157)</b>		

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

### Notes to the financial statements for the year ended 31 December 2004 (continued)

#### 31 Assets and liabilities maturity profile

	<b>Up to 3 months</b> AED'000	<b>3 – 12 months</b> AED'000	<b>Over 12 months</b> AED'000	<b>Total</b> AED'000
<b>At 31 December 2004</b>				
<b>Assets</b>				
Cash and balances with the UAE				
Central Bank	403,226	415,000	-	818,226
Due from other banks	487,593	-	-	487,593
Originated loans and advances	1,049,404	560,430	2,015,939	3,625,773
Originated debt security	-	-	105,095	105,095
Investment securities	16,050	-	29,790	45,840
Property and equipment, investment property and other assets	60,857	6,879	65,880	133,616
<b>Total</b>	<u>2,017,130</u>	<u>982,309</u>	<u>2,216,704</u>	<u>5,216,143</u>
<b>Liabilities and shareholders' equity</b>				
Due to other banks	12,564	-	291,825	304,389
Due to customers	2,661,271	1,308,044	46,056	4,015,371
Other liabilities and provision for employees' end of service benefits	88,343	-	9,707	98,050
Shareholders' equity	-	-	798,333	798,333
<b>Total</b>	<u>2,762,178</u>	<u>1,308,044</u>	<u>1,145,921</u>	<u>5,216,143</u>
Net liquidity gap	<u>(745,048)</u>	<u>(325,735)</u>	<u>1,070,783</u>	
<b>At 31 December 2003</b>				
Total assets	<u>1,485,974</u>	<u>693,791</u>	<u>1,575,297</u>	<u>3,755,062</u>
Total liabilities and equity	<u>1,808,949</u>	<u>1,074,909</u>	<u>871,204</u>	<u>3,755,062</u>
Net liquidity gap	<u>(322,975)</u>	<u>(381,118)</u>	<u>704,093</u>	

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

### **Notes to the financial statements for the year ended 31 December 2004** (continued)

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

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

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

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

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

#### **32 Fiduciary activities**

The bank holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2004, such assets amounted to AED 87.56 million (2003: AED 11.02 million) and are excluded from the financial statements of the bank.

#### **33 Fair values**

The fair value of the bank's financial assets and liabilities approximate their net carrying amounts as disclosed in these financial statements.