

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

**Directors' report and financial statements  
for the year ended 31 December 2008**

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

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	<b>Pages</b>
Directors' report to the shareholders	1 - 4
Financial highlights	5 - 6
Independent auditor's report	7 - 8
Balance sheet	9
Income statement	10
Statement of changes in shareholders' equity	11
Cash flow statement	12
Notes to the financial statements	13 - 53

## **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 2008. Our performance in the first half of the year was good as we achieved strong sales in our key retail product lines. However, during the second half of the year the market was affected by severe liquidity problems which resulted in sharply rising interest rates for customer dirham deposits. This shortage led to a reduced ability to source new business opportunities whilst interest rates depressed retail loan demand and in the SME and Commercial segments led companies to shelve or postpone new business investments.

Despite these adverse factors the Bank has continued to actively seek new lending and fee earning opportunities in its chosen fields and this focus coupled with excellent customer service has resulted in an overall very strong performance for the year.

In addition to improving the various key performance indicators the Bank has been successful in increasing revenue from non-interest income whilst continuing investment in technology.

### **Financial Performance**

The 2008 net profit was AED 635.98 million, an increase of 58% over the previous year. The bulk of the Bank's business is in the retail segment and very positive growth was seen in Retail Loans, the SME segment, Mortgages and in Cards. Complementing this growth in assets other income consisting of fees, commission, foreign exchange, investment and other operating income grew by approximately 37% to AED 469.56 million. The Bank is one of the leading issuers of credit cards in the U.A.E. and it also has a strong presence in the retail mortgage market. For 2009 the Bank will continue its focus on providing a full range of products to its customers with excellent customer service. The Bank continues to emphasize and to invest heavily in service quality in its dealing with its customers. For the fourth year running the Bank was adjudged Top Service Quality Bank in the U.A.E. in the Ethos Consulting poll. We currently have 25 branches across the Emirates with plans to open a further three during 2009.

The Bank has restructured its Corporate Banking unit now styled Business Banking. We commenced an in-depth review of risk on exposure in this segment in 2006. Risk/reward was judged as being out of balance in the construction and civil engineering segments and as a result the Bank withdrew from all such lending outside of its base Emirate. The Bank has a very small residual exposure in this segment and has no exposure whatsoever to construction involving high rise office or apartment towers. In 2006 the Bank also began to significantly reduce its exposure in the Auto Loan segment again as a result of poor profitability. We remain in this segment but at a much reduced level and mainly to existing clients.

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

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

Total assets as at 31 December 2008 were AED 13.92 billion, a 27% increase over 2007. The principal growth was seen in loans and advances. The Bank's overall investment portfolio was AED 645 million as at the end of the year. The Bank measures its investment portfolio in accordance with IFRS. An amount of AED 62.9 million representing negative fair value reserves on these investments is recorded in the statement of changes in shareholders equity. The Bank intends holding all investments to maturity. Approximately AED 350 million or 54.3% of our investments are due for maturity during 2009. The balance consists of bonds issued by local Emirati Government, quasi-government authorities and local banks. No loss is expected to be realised on any of the Bank's investments. The Bank holds a small residual holding in one domestic corporate. The Bank has not been involved in any lending for speculation in local equities.

The growth in the asset book has been supported by a combination of increases in customer deposits and an increase in shareholders equity. The increase in customer deposit was through a healthy combination of transaction accounts and fixed term deposits.

The Bank's capital adequacy ratio at the end of the year was 12.3% against a minimum of 10% prescribed by the UAE Central Bank. The ratio will significantly improve after appropriation of profit for 2008.

RAKBANK is again at the forefront of Emiratization maintaining a national ratio in its core workforce of 40.67% as at close of the year.

### Rating

The Bank is currently rated by the following leading rating agencies. Their recent ratings are as follows:

Rating Agency	Deposits	Financial Strength	Outlook	Support
Moody's	Baa1 / P-2	D+	Stable	-
Fitch	A- / F2	-	Stable	1
Capital Intelligence	A- / A2	BBB+	Stable	3

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

### Dividend

The Directors have recommended a stock dividend of 30% and a cash dividend of 5%. With these dividends the Bank will retain 95% of its net profit. Whilst the Directors consider that the Bank is well placed to meet the considerable challenges which will be faced during 2009 as a result of the global financial crisis and the domestic situation, they nevertheless believe that prudence is required in the distribution of dividend and the recommendation made will result in 95% of net profit being retained within the Bank's shareholders' equity thereby increasing capital and reserves to strengthen the Bank's overall position.

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

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

#### **Dividend (continued)**

On doubtful debt the Bank suspends interest after 90 days of irregularity and all exposure identified as substandard is fully provided at 180 days. The Bank maintains a provision for risk inherent in the portfolio of AED 100 million, a figure which is based on the Bank's historic risk profile. The Bank is increasing in size and complexity and the Directors consider it prudent to increase the general banking risk reserve from AED 75 million to AED 150 million. The Bank has robust credit policies and underwriting but is not immune to external shocks outside of its control. For that reason, the Directors believe it prudent to increase credit risk reserve by AED 175 million to AED 300 million. These measures will increase the Bank's shareholders' equity to AED 2.08 billion at 31 December 2008, over half of which is classed as retained earnings and other reserves.

#### **Outlook for 2009**

##### **Economy**

The world economy has witnessed events on a scale not seen since the Great Depression. These include drastic falls in commodity prices including crude, extensive corrections in equity and bond markets and an extraordinarily tight liquidity situation which extends to the UAE. The Bank has only entered those markets where it clearly understands the risk involved and is able to manage it. Whilst our credit policies and underwriting techniques are sound, we are part of the broad market and there is always a possibility of us being affected by negative factors outside of our control. That said, the role of the Bank is to lend and to lend safely. In the midst of current problems, we still see good lending opportunities and subject to liquidity considerations we will continue to lend in our chosen markets particularly the SME segment which is a crucial component in the economic health of the country.

##### **Liquidity**

Whilst tightening of liquidity has occurred across the globe, the outflow of hot money from the UAE in 2008 exacerbated the situation in the local Dirham market leading to severe competition for customer deposits from banks operating in this country. The UAE Dirham is pegged to the Dollar and there is a large disconnect between official LIBOR and EBOR rates on the one hand and actual rates being offered for customer deposits on the other. The situation continues to remain one of concern despite the monetary infusions by the Ministry of Finance and the emergency liquidity support provided by the Central Bank of the U.A.E. The greatest challenge for 2009 is sourcing sufficient customer deposits at a realistic rate in order to be able to grow the loan book. If deposits remain as tight as they are now, then this will have a very negative effect on the local economy as lending starts to dry up.

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

### **Directors' Report to the Shareholders (continued)**

#### **Liquidity (continued)**

That said, we believe that your bank is well-placed to meet the challenges of 2009 and we will continue to invest in products, services and technology to improve our offering. Our Internet Banking platform has now been launched and we are encouraged by the positive feedback from our customers. The Bank is active in developing e-technology and new services in this field will be introduced in 2009.

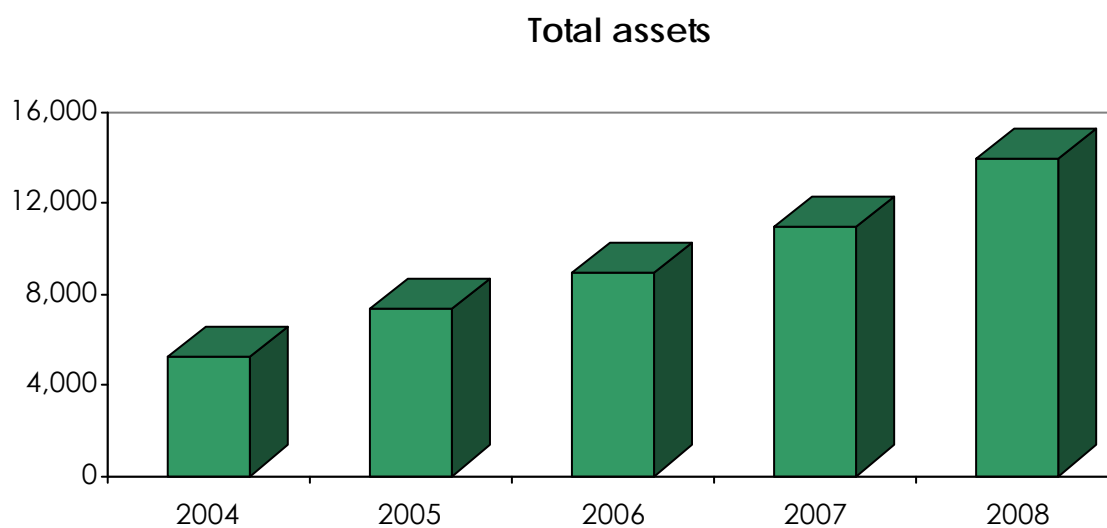
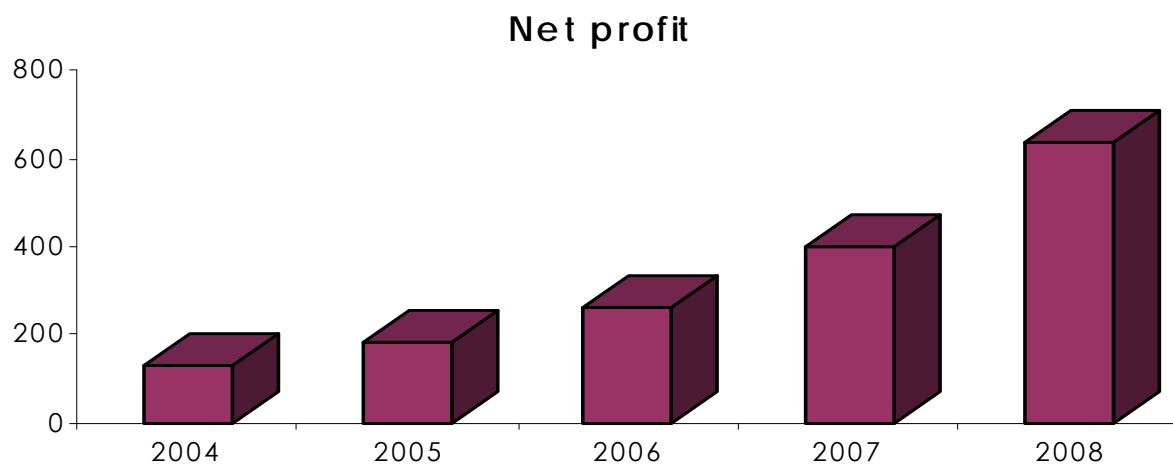
We are grateful for the continued whole-hearted support of His Highness Sheikh Saqr bin Mohamed Al-Qasimi and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the Bank for their outstanding performance during 2008 and the Bank's customers for their continued support.

Board of Directors  
8 February 2009

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

### Financial highlights

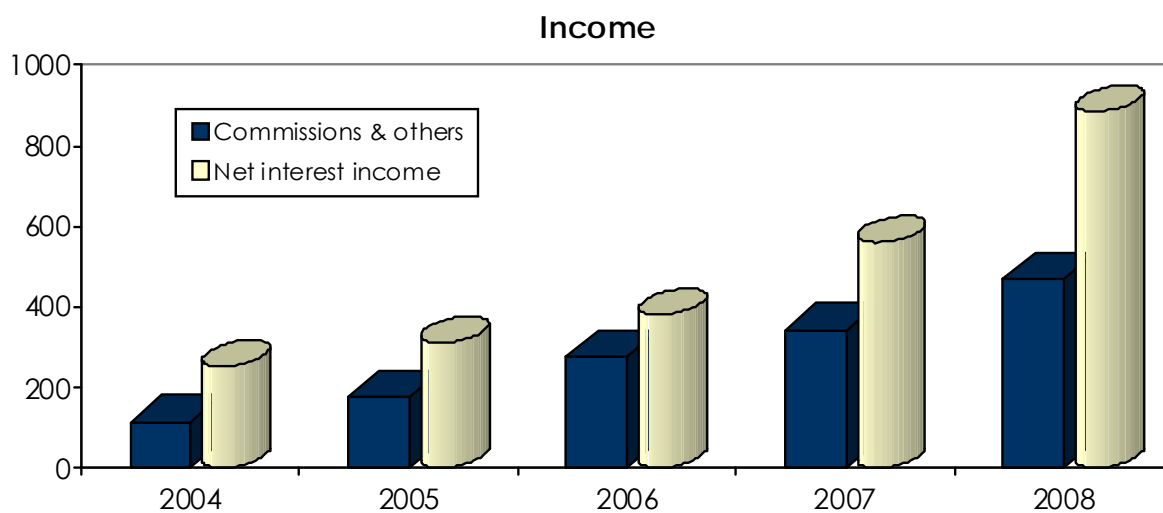
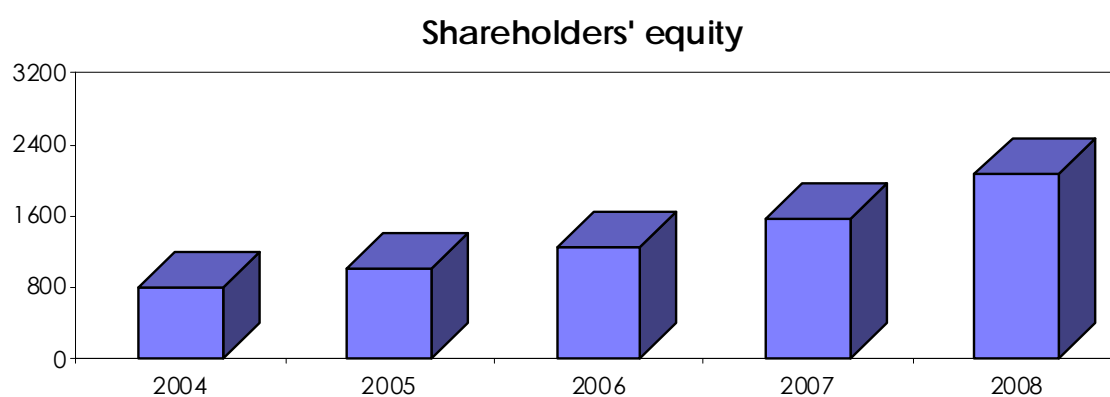
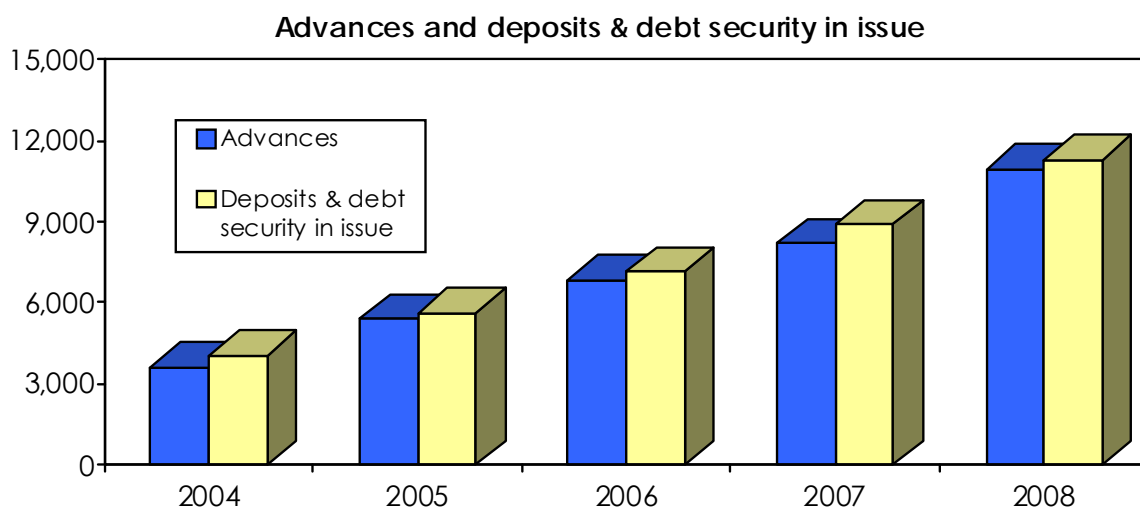
All figures shown are in millions of UAE Dirhams.



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

### Financial highlights (continued)

All figures shown are in millions of UAE Dirhams.





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

### **Report on the financial statements**

We have audited the accompanying financial statements of The National Bank of Ras Al-Khaimah (P.S.C.) ("the bank") which comprise the balance sheet as of 31 December 2008 and the income statement, statement of changes in shareholders' equity and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

### **Management's responsibility for the financial statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's responsibility**

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

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

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

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

**Opinion**

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the bank as of 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on other legal and regulatory requirements**

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

- (i) we have obtained all the information we considered necessary for the purpose of our audit;
- (ii) the financial statements comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (8) of 1984, as amended and the Articles of Association of the bank;
- (iii) the bank has maintained proper books of account and the financial statements are in agreement therewith;
- (iv) the financial information included in the Directors' report is consistent with the books of account of the bank; and
- (v) nothing has come to our attention, which causes us to believe that the bank has breached any of the applicable provisions of the UAE Federal Law No (8) of 1984, as amended, or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2008.

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

PricewaterhouseCoopers  
10 February 2009

Amin H Nasser  
Registered Auditor Number 307  
Dubai, United Arab Emirates

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

### Balance sheet

	Note	At 31 December	
		2008 AED'000	2007 AED'000
<b>ASSETS</b>			
Cash and balances with the UAE Central Bank	5	852,925	1,493,604
Due from other banks	6	967,526	336,094
Loans and advances	7	10,950,509	8,172,483
Investment securities	8	645,072	626,155
Property and equipment	9	377,138	175,354
Other assets	10	128,894	170,089
<b>Total assets</b>		<u>13,922,064</u>	<u>10,973,779</u>
<b>LIABILITIES</b>			
Due to other banks	11	185,873	233,613
Due to customers	12	9,653,665	7,239,466
Debt security in issue	13	1,644,026	1,642,984
Other liabilities	14	330,484	258,703
Provision for employees' end of service benefits	15	29,336	22,012
<b>Total liabilities</b>		<u>11,843,384</u>	<u>9,396,778</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	16	740,025	616,688
Share premium	17	110,350	110,350
Retained earnings		456,687	343,974
Other reserves	18	771,618	505,989
<b>Total shareholders' equity</b>		<u>2,078,680</u>	<u>1,577,001</u>
<b>Total liabilities and shareholders' equity</b>		<u>13,922,064</u>	<u>10,973,779</u>

These financial statements were authorised for issue by the Board of Directors on 8 February 2009 and were signed on its behalf by:

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

.....  
Graham Honeybill  
General Manager

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

### Income statement

	Note	Year ended 31 December	
		2008 AED'000	2007 AED'000
Interest income	21	1,158,324	874,925
Interest expense	21	(272,956)	(315,150)
<b>Net interest income</b>		<u>885,368</u>	<u>559,775</u>
Fee and commission income	22	356,914	275,875
Foreign exchange income		44,082	28,036
Income from investment securities	8(c)	32,559	28,556
Other operating income	23	35,998	10,698
<b>Operating income</b>		<u>1,354,921</u>	<u>902,940</u>
Operating expenses	24	(648,507)	(425,280)
Impairment charge on loans and advances net of write back/off	7(d)	(70,430)	(76,272)
<b>Net profit for the year</b>		<u><u>635,984</u></u>	<u><u>401,388</u></u>
<b>Earnings per share</b>			
Basic	26	<u><u>AED 0.86</u></u>	<u><u>AED 0.54</u></u>

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

### Statement of changes in shareholders' equity

	Notes	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Total AED'000
<b>At 1 January 2007</b>		536,250	110,350	234,688	365,810	1,247,098
Net profit for the year		-	-	401,388	-	401,388
Transfer to legal reserve	18	-	-	(40,139)	40,139	-
Transfer to voluntary reserve	18	-	-	(16,087)	16,087	-
Transfer to credit risk reserve	18	-	-	(50,000)	50,000	-
Transfer to general banking reserve	18	-	-	(25,000)	25,000	-
Net change in available-for-sale investment securities	8 (b),18	-	-	-	8,953	8,953
Issue of bonus shares	16	80,438	-	(80,438)	-	-
Cash dividend	27	-	-	(80,438)	-	(80,438)
<b>At 31 December 2007</b>		616,688	110,350	343,974	505,989	1,577,001
Net profit for the year		-	-	635,984	-	635,984
Transfer to legal reserve	18	-	-	(63,599)	63,599	-
Transfer to voluntary reserve	18	-	-	(24,667)	24,667	-
Transfer to credit risk reserve	18	-	-	(175,000)	175,000	-
Transfer to general banking reserve	18	-	-	(75,000)	75,000	-
Net change in available-for-sale investment securities	8(b),18	-	-	-	(62,901)	(62,901)
Release of fair value gain to income statement on disposal of available-for- sale investment securities	8(a),18	-	-	-	(9,736)	(9,736)
Issue of bonus shares	16	123,337	-	(123,337)	-	-
Cash dividend	27	-	-	(61,668)	-	(61,668)
<b>At 31 December 2008</b>		740,025	110,350	456,687	771,618	2,078,680

The notes on pages 13 to 53 form an integral part of these financial statements

(11)

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

### Cash flow statement

	Notes	Year ended 31 December	
		2008 AED'000	2007 AED'000
<b>Operating activities</b>			
Net profit for the year		635,984	401,388
Adjustments:			
Net charge for provision for impairment of loans and advances	7(d)	70,430	76,272
Depreciation	24	26,997	22,198
Provision for employees' end of service benefits	15	10,294	9,009
Gain on disposal of property and equipment		(105)	(261)
Amortisation of discount relating to investment securities held for maturity	8(b)	(78)	(138)
Amortisation of discount relating to debt security in issue	13	1,042	760
Loss on disposal of available-for-sale investment securities	8(c)	9,390	-
Release of fair value gain to income statement on disposal of available-for-sale investment securities	8(c),18	(9,736)	-
Operating cash flows before changes in assets and liabilities and payment of employees' end of service benefits		744,218	509,228
Payment of employees' end of service benefits	15	(2,970)	(2,460)
Changes in assets and liabilities:			
Deposits with the UAE Central Bank		277,122	(674,511)
Due from other banks with maturities over 3 months		92,071	(92,071)
Loans and advances net of provisions and amounts written off/(back)	7	(2,848,456)	(1,435,286)
Other assets	10	41,195	(17,837)
Due to other banks	11	(47,740)	(491)
Due to customers	12	2,414,199	1,389,455
Other liabilities	14	71,781	45,309
Net cash generated from /(used in) by operating activities		741,420	(278,664)
<b>Investing activities</b>			
Purchase of investment securities	8(b)	(233,603)	(118,365)
Purchase of property and equipment	9	(228,924)	(98,035)
Proceeds from sale/maturity of investment securities		142,473	-
Proceeds from sale of property and equipment		248	740
Net cash used in investing activities		(319,806)	(215,660)
<b>Financing activities</b>			
Debt security in issue	13	-	360,000
Dividend paid	27	(61,668)	(80,438)
Net cash (used in)/provided by financing activities		(61,668)	279,562
<b>Net increase/(decrease) in cash and cash equivalents</b>		359,946	(214,762)
Cash and cash equivalents, beginning of the year		747,837	962,599
Cash and cash equivalents, end of the year	29	1,107,783	747,837

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

## Notes to the financial statements for the year ended 31 December 2008

### 1 Incorporation and principal activities

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

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

### 2 Significant accounting policies

The significant accounting policies applied in the preparation of these financial statements are set out below:

#### (a) Basis of preparation

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

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

#### Interpretations and amendments to published standards effective in 2008

The following interpretations and amendments are mandatory for accounting periods beginning on or after 1 January 2008:

- IFRIC 11, 'IFRS 2 – Group and treasury share transactions';
- IFRIC 12, 'Service concession arrangements';
- IFRIC 14, 'IAS 19 – the limit on a defined benefit asset, minimum funding requirements and their interaction';
- IAS 39, 'Financial instruments: Recognition and measurement' (amendment) and IFRS 7, 'Financial instruments: Disclosures' (amendment) – Reclassification of financial assets.

The above interpretations and amendments are either not relevant to the bank or do not have any significant impact on its financial position or the results of its operations.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 2 Significant accounting policies (continued)

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

Standard, amendments and interpretation to published standards which are not yet effective and have not been early adopted by the bank

The following applicable new standard, amendments and interpretation to published standards have been issued but are effective for accounting periods beginning on or after 1 January 2009 and have not been early adopted by the bank:

- IFRS 8, 'Operating segments', effective for annual periods beginning on or after 1 January 2009. IFRS 8 replaces IAS 14, 'Segment reporting'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This may result in an increase in the number of reportable segments presented. In addition, the segments will be reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. The application of IFRS 8 will be reflected in the bank's interim condensed financial information issued in 2009 and the financial statements for the year ending 31 December 2009.
- IAS 23 (amendment), 'Borrowing costs', effective for annual periods beginning on or after 1 January 2009; The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The bank will apply IAS 23 (Amendment) from 1 January 2009, but is not expected to have a material impact on its financial statements.
- IAS 1 (Revised), 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning of the comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The bank will apply IAS 1 (Revised) from 1 January 2009. It is likely that both the income statement and statement of comprehensive income will be presented as performance statements.



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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 2 Significant accounting policies (continued)

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

Standard, amendments and interpretation to published standards which are not yet effective and have not been early adopted by the bank (continued)

- IAS 32 (amendment), 'Financial instruments: presentation', and consequential amendments to IAS 1, 'Presentation of financial statements', effective for annual periods beginning on or after 1 January 2009. The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The amendment is not expected to have a significant impact on the bank's financial statements.
- IAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The amendment is not expected to have a significant impact on the bank's financial statements.
- IAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.
  - The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.
  - The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.
  - The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.
  - IAS 37, 'Provisions, contingent liabilities and contingent assets, requires contingent liabilities to be disclosed, not recognised. IAS 19 has been amended to be consistent.  
  
The amendment is not expected to have a significant impact on the bank's financial statements.
- IAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008. The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with IAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The amendment is not expected to have a significant impact on the bank's financial statements.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 2 Significant accounting policies (continued)

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

Standard, amendments and interpretation to published standards which are not yet effective and have not been early adopted by the bank (continued)

- IAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). The amendment is part of the IASB's annual improvements project published in May 2008.
  - This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.
  - The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition.
  - The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with IFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker.
  - When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The amendment is not expected to have a significant impact on the bank's financial statements.

- IFRIC 13, 'Customer loyalty programmes' (effective from 1 July 2008). IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple element arrangement, and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The interpretation is not expected to have a significant impact on the bank's financial statements;

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 2 Significant accounting policies (continued)

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

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are carried at amortised cost using the effective interest method.

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

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

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

The bank 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 bank 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 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 bank'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.

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.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 2 Significant accounting policies (continued)

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

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.

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 asset is considered to be past due and disclosed only if renegotiated.

##### (c) Investment securities

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

*Financial asset at fair value through profit or loss:* This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified as held for trading if acquired principally for the purpose of selling in the short term or if so designated by management. Financial assets are designated at fair value through profit or loss when they are managed and evaluated on a fair value basis in accordance with a documented risk management or investment strategy and reported to key management personnel on that basis.

*Held-to-maturity:* Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the bank's management has the positive intention and ability to hold to maturity. If the bank were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be reclassified as available for sale.

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

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

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit and loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 2 Significant accounting policies (continued)

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

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

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

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

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

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

The bank assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement. Impairment on other investment securities classified as available-for-sale and those held to maturity is assessed as outlined in the accounting policy of impairment of loans and advances (Note -2 (b) )

##### (d) Due from banks

Amounts due from banks are stated at amortised cost less any amounts written off and provision for impairment, if any.

##### (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

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 2 Significant accounting policies (continued)

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

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

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount being the higher of the net selling price and value in use.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income. Repairs and renewals expenses are charged to the income statement when the expenditure is incurred.

##### (f) Employee benefits

Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to balance sheet date. This provision is included in trade and other payables. Provision is also made, using actuarial techniques, for the end of service benefits due to employees in accordance with the UAE Labour Law for their periods of service up to the balance sheet date.

##### (g) 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.

##### (h) Debt security in issue

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

##### (i) Foreign currencies

Items included in the financial statements of the bank are measured in UAE Dirhams which is the functional currency of the primary economic environment in which the bank operates. Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the balance sheet date. Any resultant gains or losses are accounted for in the income statement.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

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

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

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

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

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

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

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

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

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

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

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

##### **(n) Segment 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 2008

(continued)

#### 2 Significant accounting policies (continued)

##### (o) Derivative financial instruments

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

##### (p) Offsetting financial instruments

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

##### (q) Share capital

###### (a) Share issue costs

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

###### (b) Dividends on ordinary shares

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

##### (r) Comparatives

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

#### 3 Financial risk management

##### 3.1 Risk management review

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

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



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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3 Financial risk management (continued)

##### 3.2 Credit risk

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

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

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

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

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

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

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

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3 Financial risk management (continued)

##### 3.2 Credit risk (continued)

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

	Maximum exposure	
	31 December 2008	31 December 2007
	AED'000	AED'000
<i>Credit risk exposures relating to on-balance sheet assets are as follows:</i>		
Due from banks	967,526	336,094
Loans and advances:		
Loans to individual customers	10,297,750	7,615,099
Loans to corporate customers	652,759	557,384
Investment securities	643,364	601,555
Other assets	75,200	132,276
<i>Credit risk exposures relating to off-balance sheet items are as follows:</i>		
Loan commitments and other off balance sheet items	4,251,465	3,318,598
	<u>16,888,064</u>	<u>12,561,006</u>

The above table represents a worse case scenario of credit risk exposure to the bank at 31 December 2008 and 2007 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 96% of the total maximum exposure arises from loans and advances and amounts due from banks (2007: 94%).

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

- 93% of the loans and advances is categorised in the top grades of the bank's internal grading system (2007 – 94%).
- Mortgage loans and auto loans, which together represent a significant portion of loans and advances are backed by collateral.
- The bank continuously reviews its credit policy and changes are made based on the Management Information System (MIS) reports and the patterns that emerge from these reports.
- A significant portion of investments securities comprise debt instruments that are issued by reputable organisations which are quasi governmental.

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

### Notes to the financial statements for the year ended 31 December 2008 (continued)

#### 3 Financial risk management (continued)

##### 3.2 Credit risk (continued)

##### 3.2.2 Loans and advances to customers and amounts due from banks

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

	31 December 2008		31 December 2007	
	Loans and advances to customers AED'000	Amounts due from banks AED'000	Loans and advances to customers AED'000	Amounts due from banks AED'000
Neither past due nor impaired	10,210,284	967,526	7,706,122	336,094
Past due but not impaired	797,490	-	491,340	-
Individually Impaired	168,051	-	192,842	-
<b>Gross</b>	<b>11,175,825</b>	<b>967,526</b>	<b>8,390,304</b>	<b>336,094</b>
Less: allowance for impairment	(225,316)	-	(217,821)	-
<b>Net</b>	<b>10,950,509</b>	<b>967,526</b>	<b>8,172,483</b>	<b>336,094</b>

The total impairment provision for loans and advances is AED 225.32 million (2007: AED 217.82 million) of which AED 125.32 million (2007 - AED122.8 million) represents the individually impaired loans and advances and the remaining amount of AED 100 million (2007 -AED 95 million) represents the portfolio provision.

##### *Neither past due nor impaired*

	31 December 2008		31 December 2007	
	Loans and advances to customers AED'000	Amounts due from banks AED'000	Loans and advances to customers AED'000	Amounts due from banks AED'000
Loans and advances				
- Personal loans	9,558,393	-	7,151,949	-
- Corporate loans	651,891	-	554,173	-
Due from banks	-	967,526	-	336,094
<b>Gross</b>	<b>10,210,284</b>	<b>967,526</b>	<b>7,706,122</b>	<b>336,094</b>

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3 Financial risk management (continued)

##### 3.2 Credit risk (continued)

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

###### *Neither past due nor impaired* (continued)

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

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

###### *Past due but not impaired*

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

	31 December 2008			31 December 2007		
	Personal loans	Corporate loans	Total	Personal loans	Corporate loans	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Past due up to 30 days	520,824	-	520,824	312,390	-	312,390
Past due 30 - 60 days	194,509	-	194,509	114,781	-	114,781
Past due 60-90 days	82,157	-	82,157	64,169	-	64,169
Total	797,490	-	797,490	491,340	-	491,340
Fair value of collateral	546,107	-	546,107	279,448	-	279,448

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3. Financial risk management (continued)

##### 3.2 Credit risk (continued)

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

###### *Individually Impaired*

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

	31 December 2008			31 December 2007		
	Personal loans AED'000	Corporate loans AED'000	Total AED'000	Personal loans AED'000	Corporate loans AED'000	Total AED'000
Individually impaired loans	124,307	43,744	168,051	150,182	42,660	192,842
Fair value of collateral	(15,389)	(9,646)	(25,035)	(43,073)	-	(43,073)
Net	<u>108,918</u>	<u>34,098</u>	<u>143,016</u>	<u>107,109</u>	<u>42,660</u>	<u>149,769</u>

###### *Loans and advances renegotiated*

There were no material loans and advances that were re-negotiated during the year.

##### 3.2.3 Investment securities

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

The table below presents an analysis of debt securities by rating agency designation at 31 December 2008 and 31 December 2007, based on external's ratings or their equivalent.

	31 December 2008	31 December 2007
	AED'000	AED'000
AAA	186,192	171,787
AA- to AA+	123,072	141,504
A- to A+	282,678	178,606
Lower than A-	14,692	72,928
Unrated	36,730	36,730
Total	<u>643,364</u>	<u>601,555</u>

##### 3.2.4 Repossessed collateral

During 2008, the bank has not taken possession of any collateral held as security other than bank deposits which may have been utilised in settlement of credit facilities. In the case of retail auto loans where the underlying asset is repossessed as a part of recovery process, these are disposed off in an auction by authorised third parties and the bank does not carry any such assets in its books.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3 Financial risk management (continued)

##### 3.2 Credit risk (continued)

##### 3.2.5 Concentration of risks of financial assets with credit risk exposure

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

In order to avoid excessive concentrations of risk, the bank's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentration of credit risk is controlled and managed accordingly.

##### Geographical risk concentration

The following table breaks down the bank's main credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2008 and 31 December 2007.

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

	UAE	OECD	Others	Total
<b>31 December 2008</b>				
	AED'000	AED'000	AED'000	AED'000
Due from banks	871,767	91,603	4,156	967,526
Loans and advances				
- Personal loans	10,224,575	17,468	55,707	10,297,750
- Corporate loans	652,759	-	-	652,759
Investment securities				
- Held-to-maturity	218,771	-	18,365	237,136
- Available-for-sale	406,228	-	-	406,228
Other assets	75,200	-	-	75,200
<b>Total</b>	<b>12,449,300</b>	<b>109,071</b>	<b>78,228</b>	<b>12,636,599</b>
<b>31 December 2007</b>				
	AED'000	AED'000	AED'000	AED'000
Due from banks	194,654	138,727	2,713	336,094
Loans and advances:				
- Personal loans	7,533,584	27,618	53,897	7,615,099
- Corporate loans	553,358	3,600	426	557,384
Investment securities				
- Held-to-maturity	116,921	-	18,365	135,286
- Available-for-sale	411,340	-	54,929	466,269
Other assets	130,034	-	2,242	132,276
<b>Total</b>	<b>8,939,891</b>	<b>169,945</b>	<b>132,572</b>	<b>9,242,408</b>

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3 Financial risk management (continued)

##### 3.3 Market risk

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

The Asset and Liability Committee (ALCO), which is made up of the General Manager, the Head of Treasury, the Head of Finance, the Head of Credit, the Head of Corporate Banking and the Head of Personal Banking, meets on a regular basis to monitor and manage market risk.

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

##### 3.3.1 Price risk

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

The sensitivity analysis for price risk illustrates how changes in the fair value of securities held by the bank will fluctuate because of changes to market prices or changes in key variables used in valuation techniques, whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market. At 31 December 2008, if market prices had increased/decreased by 5%, with all other variables held constant, the fair value reserve in equity would increase/decrease by AED 20.4 million (2007: AED 24.6 million).

##### 3.3.2 Interest rate risk

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

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3 Financial risk management (continued)

##### 3.3 Market risk (continued)

##### 3.3.2 Interest rate risk (continued)

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

	Less than 3 months AED'000	From 3 months to 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Non- interest bearing AED'000	Total AED'000	Interest rate %
<b>At 31 December 2008</b>							
<b>Assets</b>							
Cash and balances with the UAE Central Bank	75,000	30,000	-	-	747,925	852,925	1.70-2.50
Due from other banks	846,906	-	-	-	120,620	967,526	0.08-3.90
Loans and advances	2,544,179	194,756	2,111,005	6,094,896	5,673	10,950,509	2.20-27.0
Investment securities	398,191	245,173	-	-	1,708	645,072	1.86-5.68
Property and equipment and other assets	-	-	-	-	506,032	506,032	-
<b>Total</b>	<b>3,864,276</b>	<b>469,929</b>	<b>2,111,005</b>	<b>6,094,896</b>	<b>1,381,958</b>	<b>13,922,064</b>	
<b>Liabilities and shareholders' equity</b>							
Due to other banks	185,873	-	-	-	-	185,873	1.25
Due to customers	6,260,355	1,355,164	5,307	-	2,032,839	9,653,665	0.25-6.75
Debt security in issue	360,000	1,284,026	-	-	-	1,644,026	4.60-5.12
Other liabilities and provision for employees' end of service benefits	-	-	-	-	359,820	359,820	-
Shareholders' equity	-	-	-	-	2,078,680	2,078,680	-
<b>Total</b>	<b>6,806,228</b>	<b>2,639,190</b>	<b>5,307</b>	<b>-</b>	<b>4,471,339</b>	<b>13,922,064</b>	
<b>Interest rate sensitivity gap</b>	<b>(2,941,952)</b>	<b>(2,169,261)</b>	<b>2,105,698</b>	<b>6,094,896</b>			



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

Notes to the financial statements for the year ended 31 December 2008

(continued)

3 Financial risk management (continued)

3.3 Market risk (continued)

3.3.2 Interest rate risk (continued)

	Less than 3 months AED'000	From 3 months to 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Non- interest bearing AED'000	Total AED'000	Interest rate %
<b>At 31 December 2007</b>							
<b>Assets</b>							
Cash and balances with the UAE Central Bank	630,000	255,000	-	-	608,604	1,493,604	3.10-4.70
Due from other banks	313,864	-	-	-	22,230	336,094	1.00-6.15
Loans and advances	1,702,590	184,477	4,221,032	2,061,692	2,692	8,172,483	3.00-27.00
Investment securities	323,914	277,641	-	-	24,600	626,155	3.11-6.59
Property and equipment and other assets	-	-	-	-	345,443	345,443	-
<b>Total</b>	<b>2,970,368</b>	<b>717,118</b>	<b>4,221,032</b>	<b>2,061,692</b>	<b>1,003,569</b>	<b>10,973,779</b>	
<b>Liabilities and shareholders' equity</b>							
Due to other banks	231,000	-	-	-	2,613	233,613	2.00-5.41
Due to customers	4,889,312	623,491	8,493	-	1,718,170	7,239,466	0.25-6.00
Debt security in issue	-	1,642,984	-	-	-	1,642,984	5.17-5.83
Other liabilities and provision for employees' end of service benefits	-	-	-	-	280,715	280,715	-
Shareholders' equity	-	-	-	-	1,577,001	1,577,001	-
<b>Total</b>	<b>5,120,312</b>	<b>2,266,475</b>	<b>8,493</b>	<b>-</b>	<b>3,578,499</b>	<b>10,973,779</b>	
<b>Interest rate sensitivity gap</b>	<b>(2,149,944)</b>	<b>(1,549,357)</b>	<b>4,212,539</b>	<b>2,061,692</b>			

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

### Notes to the financial statements for the year ended 31 December 2008 (continued)

#### 3 Financial risk management (continued)

##### 3.3 Market risk (continued)

##### 3.3.2 Interest rate risk (continued)

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

	2008 AED'000	2007 AED'000
Fluctuation in interest rates by 25 bps	<u>7,723</u>	<u>6,437</u>

The interest rate sensitivities set out above are illustrative only and employ simplified scenarios. They are based on the gap between AED 12,540 million (2007: AED 9,970 million) interest bearing assets and AED 9,451 million (2007: AED 7,395 million) interest bearing liabilities. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3 Financial risk management (continued)

##### 3.3 Market risk (continued)

##### 3.3.3 Currency risk

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

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

At 31 December 2008 and 31 December 2007, bank had the following significant net exposures denominated in foreign currencies:

##### On balance sheet items

At 31 December 2008	AED AED'000	USD AED'000	Others AED'000	Total AED'000
<b>Assets</b>				
Cash and balances with the UAE Central Bank	771,388	81,537	-	852,925
Due from other banks	654,696	84,929	227,901	967,526
Loans and advances	10,814,652	98,310	37,547	10,950,509
Investment securities	293,750	351,322	-	645,072
Other assets	72,222	2,546	432	75,200
<b>Total assets</b>	<u>12,606,708</u>	<u>618,644</u>	<u>265,880</u>	<u>13,491,232</u>
<b>Liabilities</b>				
Due to other banks	446	183,650	1,777	185,873
Due to customers	8,502,991	816,673	334,001	9,653,665
Debt security in issue	360,000	1,284,026	-	1,644,026
Other liabilities	279,028	17,716	1,375	298,119
<b>Total liabilities</b>	<u>9,142,465</u>	<u>2,302,065</u>	<u>337,153</u>	<u>11,781,683</u>
<b>Net balance sheet position</b>	<u>3,464,243</u>	<u>(1,683,421)</u>	<u>(71,273)</u>	<u>1,709,549</u>
<b>At 31 December 2007</b>				
Total assets	<u>9,865,962</u>	<u>768,937</u>	<u>125,713</u>	<u>10,760,612</u>
Total liabilities	<u>7,169,762</u>	<u>1,934,009</u>	<u>156,070</u>	<u>9,259,841</u>
Net balance sheet position	<u>2,696,200</u>	<u>(1,165,072)</u>	<u>(30,357)</u>	<u>1,500,771</u>

The bank has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the bank has the largest short net open position at 31 December 2008 and 31 December 2007.

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

### Notes to the financial statements for the year ended 31 December 2008 (continued)

#### 3 Financial risk management (continued)

##### 3.3 Market risk (continued)

##### 3.3.3 Currency risk (continued)

###### Off-balance sheet items

At 31 December 2008	AED AED'000	USD AED'000	Others AED'000	Total AED'000
Loan commitments	3,735,728	-	-	3,735,728
Guarantees, acceptances and other financial facilities	345,744	115,744	54,249	515,737
<b>Total</b>	<b>4,081,472</b>	<b>115,744</b>	<b>54,249</b>	<b>4,251,465</b>
<b>At 31 December 2007</b>				
Loan commitments	2,712,214	-	-	2,712,214
Guarantees, acceptances and other financial facilities	373,496	149,773	83,115	606,384
	<b>3,085,710</b>	<b>149,773</b>	<b>83,115</b>	<b>3,318,598</b>

##### 3.4 Liquidity risk

##### 3.4.1 Liquidity risk management process

The bank manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the bank's internal guidelines mandated by ALCO. The Central Bank of the U.A.E. has prescribed reserve requirements on deposits ranging between 1% and 14% on demand and time deposits. The Central Bank of the U.A.E. also imposes mandatory 1:1 advances to deposit ratio whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. ALCO monitors liquidity ratios on a regular basis.

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

### Notes to the financial statements for the year ended 31 December 2008 (continued)

#### 3 Financial risk management (continued)

##### 3.4 Liquidity risk (continued)

##### 3.4.2 Non-derivative cash flows

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

	Up to 3 months AED'000	3 - 12 months AED'000	1 - 5 years AED'000	Over 5 years AED'000	Total AED'000
<b>At 31 December 2008</b>					
Due to other banks	185,878	-	-	-	185,878
Due to customers	7,625,597	1,391,456	797,057	-	9,814,110
Debt security in issue	360,150	-	1,294,955	-	1,655,105
Other liabilities	298,119	-	-	-	298,119
<b>Total</b>	<b>8,469,744</b>	<b>1,391,456</b>	<b>2,092,012</b>	<b>-</b>	<b>11,953,212</b>
<b>At 31 December 2007</b>					
Due to other banks	133,710	103,700	-	-	237,410
Due to customers	6,621,826	642,923	8,776	-	7,273,525
Debt security in issue	-	-	1,873,675	-	1,873,675
Other liabilities	143,778	-	-	-	143,778
<b>Total</b>	<b>6,899,314</b>	<b>746,623</b>	<b>1,882,451</b>	<b>-</b>	<b>9,528,388</b>

##### 3.4.3 Derivative cash flows

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

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

	Up to 1 month AED'000	1 - 3 months AED'000	3 - 12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
<b>At 31 December 2008</b>						
Foreign exchange contracts						
- Outflow	96,166	22,107	-	-	-	118,273
- Inflow	101,068	21,752	-	-	-	122,820
<b>At 31 December 2007</b>						
Foreign exchange contracts:						
- Outflow	76,697	-	-	-	-	76,697
- Inflow	77,353	-	-	-	-	77,353

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3 Financial risk management (continued)

##### 3.4 Liquidity risk (continued)

##### 3.4.4 Off-balance sheet items

At 31 December 2008	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
Loan commitments	3,606,299	129,429	-	3,735,728
Guarantees, acceptances and other financial facilities	515,737	-	-	515,737
<b>Total</b>	<b>4,122,036</b>	<b>129,429</b>	<b>-</b>	<b>4,251,465</b>
<b>At 31 December 2007</b>				
Loan commitments	2,637,558	74,656	-	2,712,214
Guarantees, acceptances and other financial facilities	606,384	-	-	606,384
<b>Total</b>	<b>3,243,942</b>	<b>74,656</b>	<b>-</b>	<b>3,318,598</b>

##### 3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets. Whilst operational risk cannot be eliminated in its entirety, the bank endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. The management of operational risk commenced with the adoption of a formal governance structure under the Risk Management Committee to provide strategic direction oversight and monitoring of the Operational Risk Framework. The Framework incorporates standards for risk that are based on best practice and codify the core governing principles for operational risk management. It ensures that identification, evaluation, control, measurement, monitoring and reporting of operational risks are consistent across the bank.

##### 3.6 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.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3 Financial risk management (continued)

##### 3.6 Fair values of financial assets and liabilities (continued)

	Fair value		Carrying value	
	2008	2007	2008	2007
	AED'000	AED'000	AED'000	AED'000
<b>Financial assets</b>				
Due from banks	967,526	336,094	967,526	336,094
Loans and advances:				
Loans to individual customers	10,297,750	7,615,099	10,297,750	7,615,099
Loans to corporate customers	652,759	557,384	652,759	557,384
Investment securities	600,375	601,555	645,072	626,155
Other assets	75,200	132,276	75,200	132,276
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Financial liabilities</b>				
Due to other banks	185,873	233,613	185,873	233,613
Due to customers	9,653,665	7,239,466	9,653,665	7,239,466
Debt security in issue	1,635,899	1,642,984	1,644,026	1,642,984
Other liabilities	298,119	143,778	298,119	143,778
	<hr/>	<hr/>	<hr/>	<hr/>

(i) Due to/from other banks

Due to/from other banks includes inter-bank placements. These are short term and the carrying amount approximates their fair value.

(ii) Loans and advances to customers

Loans and advances are net of provisions for impairment. The carrying amount approximates the fair value of loans and advances.

(iii) Investment securities

Investment securities include interest-bearing debt instruments held-to-maturity and those classified as available-for-sale which are measured at fair value and equity investments. The fair value of available-for-sale debt instruments and equity securities are based on quoted market prices. Fair value for held-to-maturity investment securities is based on market prices or broker/dealer price quotations.

(iv) Due to customers

The estimated fair values of amounts due to customers with no stated maturity, which include non-interest-bearing deposits, is the amount repayable on demand.

The fair values of interest-bearing deposits are not significantly different from the carrying value as they are short term.

(v) Debt security in issue

The fair value of the debt security in issue is determined using a discounted cash flow model based on a current yield curve appropriate for the remaining term to maturity.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 3 Financial risk management (continued)

##### 3.7 Capital management

For assessment of current capital requirements, set at a minimum of 10% by the Central Bank of the UAE, the bank calculates its risk asset ratio in accordance with guidelines established by the UAE Central Bank prescribing the ratio of total capital to total risk-weighted assets. This is also in line with the assessment of capital adequacy ratio in accordance with the Basel I Accord and is analysed as follows:

	2008 AED'000	2007 AED'000
<b>Tier 1 capital</b>		
Ordinary share capital	740,025	616,688
Share premium	110,350	110,350
Statutory and other reserves	433,354	361,111
Retained earnings	158,966	73,811
Total	<u>1,442,695</u>	<u>1,161,960</u>
<b>Tier 2 capital</b>		
Fair value reserve for available for sale investments	-	6,144
Total capital base	<u>1,442,695</u>	<u>1,168,104</u>
<b>Risk weighted assets</b>		
On balance sheet	11,416,591	8,396,718
Off balance sheet	303,244	403,437
Total risk weighted assets	<u>11,719,835</u>	<u>8,800,155</u>
<b>Risk asset ratio (%)</b>	<u>12.3</u>	<u>13.3</u>
Minimum risk asset ratio required by the UAE Central Bank	<u>10.0</u>	<u>10.0</u>

In its preparedness for compliance with Basel II the bank has decided to adopt standardised approach for credit risk and basic indicator approach for operational risk in addition to the charge for market risk. Initial estimates by the bank indicate that there will not be any additional capital requirement to maintain the present risk ratio.



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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 4 Critical accounting estimates, and judgements in applying accounting policies

The bank makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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

The bank reviews its loan portfolio to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the bank makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A +/-5% change in the provision would increase/decrease the provision by AED 3.5 million (2007: AED 3.8 million).

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

The bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

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

The bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the bank evaluates its intention and ability to hold such investments to maturity. If the bank fails to hold these investments to maturity other than in specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value not amortised cost.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

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

	2008 AED'000	2007 AED'000
Cash in hand and balances with the UAE Central Bank (Note 29)	140,257	178,814
Statutory deposit with the UAE Central Bank	607,668	429,790
Certificates of deposit with the UAE Central Bank	105,000	885,000
	<u>852,925</u>	<u>1,493,604</u>

The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the bank. Cash in hand, balances and statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry an interest rate of between 1.70% to 2.50% (2007: 3.10% to 5.05%) per annum.

	2008 AED'000	2007 AED'000
<b>6 Due from other banks</b>		
Placements with other banks	846,907	313,864
Demand deposits	120,619	22,230
	<u>967,526</u>	<u>336,094</u>

Amounts due from other banks carry an interest rate of between 0.08% to 3.90% (2007:1.00% to 6.15%) per annum.

#### 7 Loans and advances

##### 7(a) Loans and advances

Personal loans		10,480,190	7,793,471
Corporate loans		695,635	596,833
<b>Total loans and advances</b>	7 (b)	<u>11,175,825</u>	<u>8,390,304</u>
Provision for impairment	7 (c)	<u>(225,316)</u>	<u>(217,821)</u>
<b>Net loans and advances</b>		<u>10,950,509</u>	<u>8,172,483</u>

##### 7(b) Analysis of loans and advances

Loans		10,461,354	7,801,345
Overdrafts		550,461	471,470
Loans against trust receipts		119,455	91,845
Bills discounted		39,101	22,539
Others		5,454	3,105
<b>Total loans and advances</b>		<u>11,175,825</u>	<u>8,390,304</u>

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

Notes to the financial statements for the year ended 31 December 2008  
(continued)

7 Loans and advances (continued)

7(c) Provision for impairment

31 December 2008	Personal loans AED'000	Corporate loans AED'000	Total AED'000
<b>Balance brought forward</b>	178,372	39,449	217,821
Impairment charge (Note 7(d))	95,280	3,427	98,707
Written off during the year	(91,212)	-	(91,212)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Balance carried forward</b>	<u>182,440</u>	<u>42,876</u>	<u>225,316</u>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>31 December 2007</b>			
<b>Balance brought forward</b>	136,358	58,792	195,150
Impairment charge (Note 7(d))	93,068	(19,253)	73,815
Written off during the year	(51,054)	(90)	(51,144)
	<u>          </u>	<u>          </u>	<u>          </u>
<b>Balance carried forward</b>	<u>178,372</u>	<u>39,449</u>	<u>217,821</u>
	<u>          </u>	<u>          </u>	<u>          </u>

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

31 December 2008	Personal loans AED'000	Corporate loans AED'000	Total AED'000
Impairment charge	95,280	3,427	98,707
Write back during the year	(28,277)	-	(28,277)
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>67,003</u>	<u>3,427</u>	<u>70,430</u>
	<u>          </u>	<u>          </u>	<u>          </u>
<b>31 December 2007</b>			
Impairment charge	93,068	(19,253)	73,815
Write off during the year	2,457	-	2,457
	<u>          </u>	<u>          </u>	<u>          </u>
	<u>95,525</u>	<u>(19,253)</u>	<u>76,272</u>
	<u>          </u>	<u>          </u>	<u>          </u>

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

## Notes to the financial statements for the year ended 31 December 2008

(continued)

### 8 Investment securities

#### 8(a) Total investment securities

	2008 AED'000	2007 AED'000
<b>Securities available-for-sale</b>		
Quoted equity securities	1,708	24,600
Quoted debt securities	176,414	178,377
Unquoted debt securities	229,814	287,892
	<u>407,936</u>	<u>490,869</u>
<b>Securities held-to-maturity</b>		
Quoted debt securities	237,136	135,286
	<u>237,136</u>	<u>135,286</u>
<b>Total</b>	<u><u>645,072</u></u>	<u><u>626,155</u></u>

#### 8(b) Movement in investment securities

	Securities available-for- sale AED'000	Securities held – to – maturity AED'000	Total AED'000
At 1 January 2007	363,551	135,148	498,699
Purchases	118,365	-	118,365
Net changes in fair value (Note 18)	8,953	-	8,953
Amortisation of discount	-	138	138
	<u>490,869</u>	<u>135,286</u>	<u>626,155</u>
At 31 December 2007	490,869	135,286	626,155
Purchases	51,581	182,022	233,603
Disposal/maturity	(71,613)	(80,250)	(151,863)
Net changes in fair value (Note 18)	(62,901)	-	(62,901)
Amortisation of discount	-	78	78
	<u>407,936</u>	<u>237,136</u>	<u>645,072</u>
At 31 December 2008	<u><u>407,936</u></u>	<u><u>237,136</u></u>	<u><u>645,072</u></u>

#### 8(c) Income from investment securities

	2008 AED'000	2007 AED'000
Interest income on debt securities	25,860	27,806
Loss on disposal of available-for-sale investment securities	(9,390)	-
Release of fair value gain to income statement on disposal of available-for-sale investment securities (Note 18)	9,736	-
Other investment income	6,353	750
	<u>32,559</u>	<u>28,556</u>
	<u><u>32,559</u></u>	<u><u>28,556</u></u>
		(42)

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 9 Property and equipment

	Land and buildings AED'000	Leasehold improvements AED'000	Other assets AED'000	Capital work in progress AED'000	Total AED'000
<b>Cost</b>					
1 January 2007	59,839	21,628	86,509	14,694	182,670
Additions	5	2,526	32,973	62,531	98,035
Transfers	705	5,778	11,222	(17,705)	-
Disposals/write off	-	(132)	(863)	-	(995)
31 December 2007	60,549	29,800	129,841	59,520	279,710
Additions	5,962	874	14,794	207,294	228,924
Transfers	117	9,394	13,291	(22,802)	-
Disposals/write off	-	(219)	(539)	-	(758)
31 December 2008	66,628	39,849	157,387	244,012	507,876
<b>Depreciation</b>					
1 January 2007	8,265	14,357	60,052	-	82,674
Charge for the year	790	4,341	17,067	-	22,198
Disposals/write off	-	(3)	(513)	-	(516)
31 December 2007	9,055	18,695	76,606	-	104,356
Charge for the year	752	3,928	22,317	-	26,997
Disposals/write off	-	(219)	(396)	-	(615)
31 December 2008	9,807	22,404	98,527	-	130,738
<b>Net book amount</b>					
31 December 2008	56,821	17,445	58,860	244,012	377,138
31 December 2007	51,494	11,105	53,235	59,520	175,354

Included in land and buildings is land costing AED 51.72 million (2007: AED 46.51 million). The fair value of the land at 31 December 2008 was AED 153 million, as determined by an independent valuer.

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

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

	2008 AED'000	2007 AED'000
<b>10 Other assets</b>		
Cheques held for collection	-	77,827
Prepayments and deposits	36,511	27,610
Others	92,383	64,652
	<u>128,894</u>	<u>170,089</u>
<b>11 Due to other banks</b>		
Term deposits	183,650	231,000
Demand deposits	2,223	2,613
	<u>185,873</u>	<u>233,613</u>
<b>12 Due to customers</b>		
Time deposits	5,953,687	4,213,648
Savings deposits	315,117	277,728
Call deposits	542,416	450,442
Current accounts	2,842,445	2,297,648
	<u>9,653,665</u>	<u>7,239,466</u>
<b>13 Debt security in issue</b>		
USD medium-term note	1,645,550	1,645,550
Less: debt security issue costs	(1,524)	(2,566)
	<u>1,644,026</u>	<u>1,642,984</u>

The bank has established a Medium Term Note Program for USD 500 million, of which USD 200 million was issued in 2005, USD 150 million in March 2006 and AED 360 million in December 2007. The USD 200 million and USD 150 million notes mature in 2010 and carry an interest rate of six months Libor + 55bps. The AED 360 million note is due to mature on 29 January 2009 and carry a fixed interest rate of 5.12% per annum. During the year, the effective interest rate on the USD 350 million note was between 3.27% to 4.60% to (2007: 5.17% to 5.83%).

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 14 Other liabilities

	2008 AED'000	2007 AED'000
Managers cheques issued	68,500	85,829
Accrued expenses	102,385	76,284
Others	159,599	96,590
	<u>330,484</u>	<u>258,703</u>

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

	2008 AED'000	2007 AED'000
At 1 January	22,012	15,463
Charge for the year (Note 25)	10,294	9,009
Payment during the year	(2,970)	(2,460)
At 31 December	<u>29,336</u>	<u>22,012</u>

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2008, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using a discount rate of 6% (2007: 6%). Under this method an assessment has been made of an employee's expected service life with the bank and the expected basic salary at the date of leaving the service. Management has assumed average increment/promotion costs of 5% (2007: 5%).

#### 16 Share capital

The authorised, issued and fully paid share capital of the bank comprises 740.03 million shares of AED 1 each (2007: 616.68 million shares of AED 1 each).

At the meeting of the shareholders held on 9 March 2008, a stock dividend (issue of bonus shares) of 20% and a cash dividend of 10% on the issued and paid up share capital of 616.68 million was approved by the shareholders in respect of the financial year 2007. The total distribution for 2007 amounted to AED 185 million (2006: stock dividend of 15% and cash dividend of 15% amounting to AED 161 million).

#### 17 Share premium

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

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 18 Other reserves

	Legal reserve AED'000	Voluntary reserve AED'000	General banking risk reserve AED'000	Credit risk reserve AED'000	Fair value reserve AED'000	Total AED'000
<b>At 1 January 2007</b>	128,860	107,250	50,000	75,000	4,700	365,810
Changes during the year	40,139	16,087	25,000	50,000	8,953	140,179
<b>At 31 December 2007</b>	168,999	123,337	75,000	125,000	13,653	505,989
Changes during the year	63,599	24,667	75,000	175,000	(62,901)	275,365
Release of fair value gain to income statement on disposal of available-for-sale investment securities (Note 8(c))	-	-	-	-	(9,736)	(9,736)
<b>At 31 December 2008</b>	<u>232,598</u>	<u>148,004</u>	<u>150,000</u>	<u>300,000</u>	<u>(58,984)</u>	<u>771,618</u>

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

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

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

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

#### 19 Contingencies and commitments

	2008 AED'000	2007 AED'000
Guarantees	405,146	461,577
Letters of credit	70,438	111,468
Acceptances	25,273	33,203
Commitments to extend credit	3,735,728	2,712,214
Capital commitments	14,784	-
Other	96	136
	<u>4,251,465</u>	<u>3,318,598</u>



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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 19 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.

#### 20 Forward foreign exchange contracts

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

The bank had the following forward exchange transactions outstanding.

	Contract amount AED'000	Fair value AED'000
31 December 2008	118,273	123
31 December 2007	77,353	-

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

	2008 AED'000	2007 AED'000
<b>21 Interest income and expense</b>		
<b>Interest income</b>		
Personal loans	420,945	358,625
Credit cards	274,316	190,267
Commercial loans and overdrafts	370,326	201,089
Auto loans	40,824	65,888
Other banks	24,912	20,595
Deposits with the UAE Central Bank	13,027	27,381
Others	13,974	11,080
	<u>1,158,324</u>	<u>874,925</u>
<b>Interest expense</b>		
Due to customers	191,300	225,256
Borrowings from other banks	81,656	89,894
	<u>272,956</u>	<u>315,150</u>
<b>22 Fee and commission income</b>		
Fees and commission	286,463	216,042
Documentary credits and guarantees	6,740	6,919
Transfers	3,257	2,595
Others	60,454	50,319
	<u>356,914</u>	<u>275,875</u>

### 23 Other operating income

Other operating income includes a profit of AED 21 million realised on the sale of excess staff housing units under construction, on which the bank had made an advance payment.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

	2008 AED'000	2007 AED'000
<b>24 Operating expenses</b>		
Staff costs (Note 25)	340,363	209,339
Occupancy costs	45,962	30,111
Marketing expenses	26,362	22,900
Depreciation (Note 9)	26,997	22,198
Services	29,084	21,233
Legal and consultancy fees	19,584	15,056
Computer expenses	16,253	11,803
Commission and rebates	208	6,473
Others	143,694	86,167
	<u>648,507</u>	<u>425,280</u>

### 25 Staff costs

Salaries and allowances	312,197	189,110
Pension	3,997	3,383
End of service benefits (Note 15)	10,294	9,009
Staff training	2,011	1,308
Others	11,864	6,529
	<u>340,363</u>	<u>209,339</u>

### 26 Earnings per share

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

	2008	2007
Net profit for the year in AED	635,984,440	401,388,012
Weighted average number of shares in issue	740,025,000	740,025,000
Basic earnings per share in AED	<u>0.86</u>	<u>0.54</u>

There were no potentially dilutive shares as at 31 December 2008 and 31 December 2007.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 27 Dividends

At the meeting held on 8 February 2009, the Board of Directors proposed a stock dividend (issue of bonus shares) of 30% and a cash dividend of 5% of the issued and paid up capital amounting to AED 259 million in respect of the year 2008 (2007: 20% stock dividend and 10% cash dividend amounting to AED 185 million).

Dividends are not accounted for until they have been approved at the annual general meeting and accordingly, the proposed dividend will be accounted for as an appropriation of retained earnings in the year ending 31 December 2009 after it has been approved by the shareholders.

#### 28 Related party transactions and balances

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

	2008 AED'000	2007 AED'000
<b>Transactions during the year</b>		
Interest income	1,091	2,040
Interest expense	11,044	14,083
Commission income	1,131	473
Directors' remuneration	2,892	1,333
Remuneration payable to key management personnel	24,727	19,668
	<u>24,727</u>	<u>19,668</u>
<b>Balances at 31 December:</b>		
Loans and advances:		
- Shareholders and their related companies	45,164	18,313
- Directors and their related companies	11,291	4,975
	<u>56,455</u>	<u>23,288</u>
Due to customers:		
- Shareholders and their related companies	425,991	292,063
- Directors and their related companies	82,390	122,776
	<u>508,381</u>	<u>414,839</u>
Irrevocable commitments, contingent liabilities and forward contracts		
- Shareholders and their related companies	56,416	74,998
- Directors and their related companies	11,594	1,627
	<u>68,010</u>	<u>76,625</u>

#### 29 Cash and cash equivalents

	2008 AED'000	2007 AED'000
Cash and current account balance with UAE Central Bank (Note 5)	140,257	178,814
Certificates of deposit with the UAE Central Bank	-	325,000
Due from other banks	967,526	244,023
	<u>1,107,783</u>	<u>747,837</u>

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 30 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.

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

Treasury and others - 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

	Retail banking AED'000	Business banking AED'000	Treasury and others AED'000	Eliminations AED'000	Total AED'000
<b>31 December 2008</b>					
External revenue	1,439,657	72,132	116,089	-	1,627,878
Revenues from other segments	216,754	59,134	121,564	(397,452)	-
Total revenues	<u>1,656,411</u>	<u>131,266</u>	<u>237,653</u>	<u>(397,452)</u>	<u>1,627,878</u>
Segment result	630,532	44,895	89,131	-	764,558
Unallocated costs	-	-	-	-	(128,574)
<b>Net profit for the year</b>					<u><u>635,984</u></u>
Segment assets	10,755,435	659,390	2,254,144	-	13,668,969
Unallocated assets	-	-	-	-	253,095
<b>Total assets</b>					<u><u>13,922,064</u></u>
Segment liabilities	5,998,942	2,451,628	3,255,927	-	11,706,497
Unallocated liabilities	-	-	-	-	136,887
<b>Total liabilities</b>					<u><u>11,843,384</u></u>

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

### Notes to the financial statements for the year ended 31 December 2008 (continued)

#### 30 Business segments (continued)

##### Primary segment information

	Retail banking AED'000	Business Banking AED'000	Treasury and others AED'000	Eliminations AED'000	Total AED'000
<b>31 December 2007</b>					
External revenue	1,065,222	64,562	88,306	-	1,218,090
Revenues from other segments	201,591	57,391	142,056	(401,038)	-
<b>Total revenues</b>	<u>1,266,813</u>	<u>121,953</u>	<u>230,362</u>	<u>(401,038)</u>	<u>1,218,090</u>
Segment result	379,454	63,835	7,714	34,422	485,425
Unallocated costs	-	-	-	-	(84,037)
<b>Net profit for the year</b>					<u>401,388</u>
Segment assets	7,992,197	553,473	2,295,840	-	10,841,510
Unallocated assets	-	-	-	-	132,269
<b>Total assets</b>					<u>10,973,779</u>
Segment liabilities	5,264,397	1,678,163	2,377,390	-	9,319,950
Unallocated liabilities	-	-	-	-	76,828
<b>Total liabilities</b>					<u>9,396,778</u>

#### 31 Fiduciary activities

The bank holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2008, such assets amounted to AED 481.41 million (2007: AED 347.29 million) and are excluded from these financial statements of the bank.

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

### Notes to the financial statements for the year ended 31 December 2008

(continued)

#### 32 Assets and liabilities maturity profile

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

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

	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Total AED'000
<b>At 31 December 2008</b>					
<b>Assets</b>					
Cash and balances with the UAE					
Central Bank	822,925	30,000	-	-	852,925
Due from other banks	967,526				967,526
Loans and advances	2,511,956	202,650	2,141,246	6,094,657	10,950,509
Investment securities	432,451	7,650	204,971	-	645,072
Property and equipment, and other assets	113,034	12,048	2,709	378,241	506,032
<b>Total</b>	<u>4,847,892</u>	<u>252,348</u>	<u>2,348,926</u>	<u>6,472,898</u>	<u>13,922,064</u>
<b>Liabilities and shareholders' equity</b>					
Due to other banks	185,873	-	-	-	185,873
Due to customers	7,608,727	1,355,164	689,774	-	9,653,665
Debt security in issue	360,000	-	1,284,026	-	1,644,026
Other liabilities and provision for employees' end of service benefits	330,484	-	-	29,336	359,820
Shareholders' equity	-	-	-	2,078,680	2,078,680
<b>Total</b>	<u>8,485,084</u>	<u>1,355,164</u>	<u>1,973,800</u>	<u>2,108,016</u>	<u>13,922,064</u>
Net liquidity gap	<u>(3,637,192)</u>	<u>(1,102,816)</u>	<u>375,126</u>	<u>4,364,882</u>	<u>-</u>
<b>At 31 December 2007</b>					
Total assets	<u>3,880,897</u>	<u>498,787</u>	<u>1,821,750</u>	<u>4,772,345</u>	<u>10,973,779</u>
Total liabilities and equity	<u>6,999,798</u>	<u>723,491</u>	<u>1,651,477</u>	<u>1,599,013</u>	<u>10,973,779</u>
Net liquidity gap	<u>(3,118,901)</u>	<u>(224,704)</u>	<u>170,273</u>	<u>3,173,332</u>	<u>-</u>