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

Report and financial statements for the year ended 31 December 2006

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

Directors' report to the shareholders

We are pleased to present the Annual Report of your bank for 2006. Our performance during the year has been most encouraging and in line with the strategic initiatives introduced during the past few years.

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

Financial Performance

The net profit for 2006 at AED 258.8 million grew by approximately 40% over the previous year. This was assisted by increases in net interest income which at AED 380 million was up 23% and especially by other income consisting of fees, commission and foreign exchange income which at AED 276 million grew by approximately 59%. This is in line with the bank's efforts to increase non-interest revenue.

Retail Banking remains the key driver of the Bank and 2006 was another successful year with an increase in the customer base across all the products offered including retail loans, credit cards, mortgages, investment services and small business lending. The Bank is one of the leading commercial providers of mortgages in Dubai and this is an area where we see considerable potential in the future. The Bank introduced new delivery channels in the form of Kiosks in 2005 and three new kiosks were launched in Dubai during the year. The Bank has 17 Branches.

The restructuring of Corporate Banking into a new business banking unit focussing on middle market, commercial and small/medium enterprises has also been successful with growth in assets underpinned by significant improvement in returns.

Total assets as at 31 December 2006 were AED 8.8 billion, a 21% increase from 2005 resulting from a growth in loans and advances of AED 1.5 billion. The bank's investment portfolio at AED 499 million grew by 55% and the diversification has resulted in significant improvement in the yield from these assets.

The growth in the asset book has been supported by a combination of increases in customer deposits, medium term bank borrowings and an increase in shareholders' equity. Customer deposits increased by AED 1 billion during the year 2006 through a healthy combination of increases in transaction accounts and fixed term deposits.

Following the successful launch of the bank's inaugural Euro Medium Term Notes (EMTN) program in 2005, a further USD 150 million was issued in the first quarter of 2006. The response to the issue was extremely positive with investor interest coming from Asia, Europe and the Middle East.

The bank's capital adequacy ratio at the end of the year closed at 13%, against a minimum of 10 % prescribed by the UAE Central Bank. The ratio will further improve to over 15% after appropriations of profits for 2006.

RAKBANK has again remained in the forefront of Emiratisation maintaining a national ratio in its work force of 40% force in 2006. A strong customer centric approach supported by an emphasis on delivery has won for the bank the award of best bank for service quality in the UAE.

Rating

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

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

During the year Capital Intelligence revised their ratings upwards from BBB/A3 to BBB+/ A2 in recognition of the bank's good management, prudent policies and sound financials.

Dividend

The Directors have recommended a stock dividend of 15% and a cash dividend of 15%. This proposal is in line with the bank's strategy to reward its shareholders while at the same time ensuring a robust internal generation of equity in support of future business expansion.

Outlook for 2007

With the continuing strong oil prices and emphasis on diversification we expect the UAE economy to witness another year of solid growth in 2007. Performance in the banking sector is expected to remain strong. The bank's retail strategy will be expanded in 2007 with emphasis on products tailored to our customers need, and on service quality. Delivery channels will be enhanced through a combination of E-channels and opening of new Branches and Kiosks.

We are grateful for the continued whole-hearted support of His Highness Sheikh Saqr bin Mohamed Al-Qasimi and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the bank for their outstanding performance during 2006 and the bank's customers for their continued support.

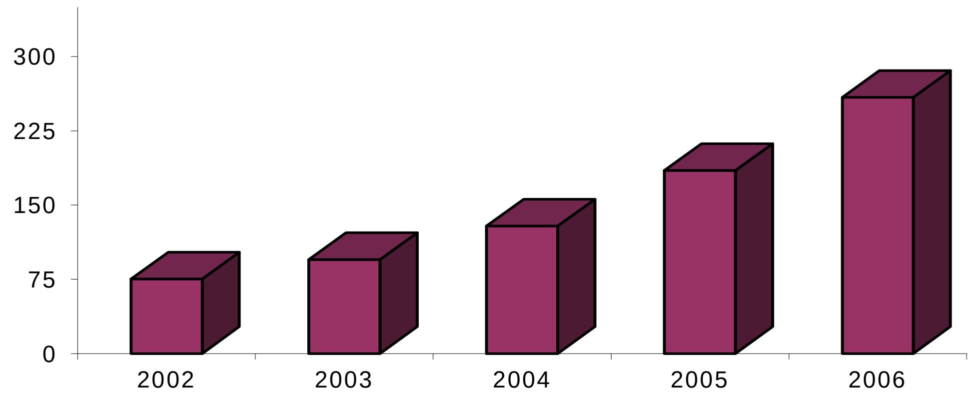
Board of Directors
28 January 2007

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

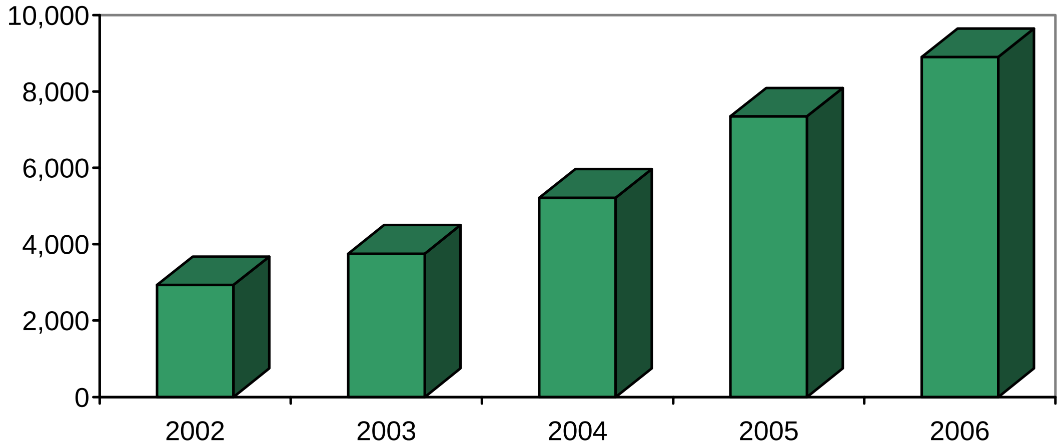
Financial highlights

All figures shown are in millions of UAE Dirhams.

Net Profit



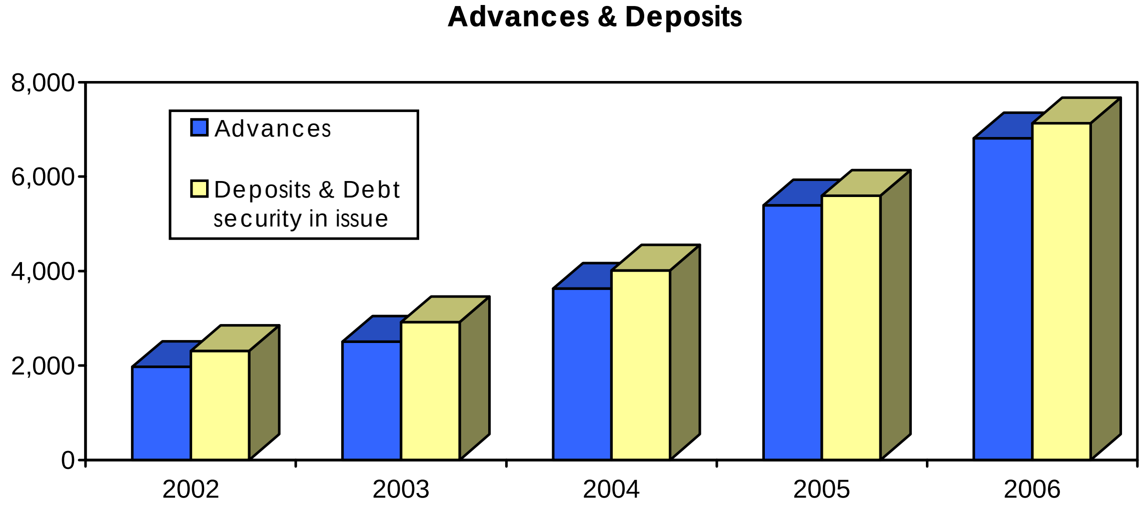
Total Assets

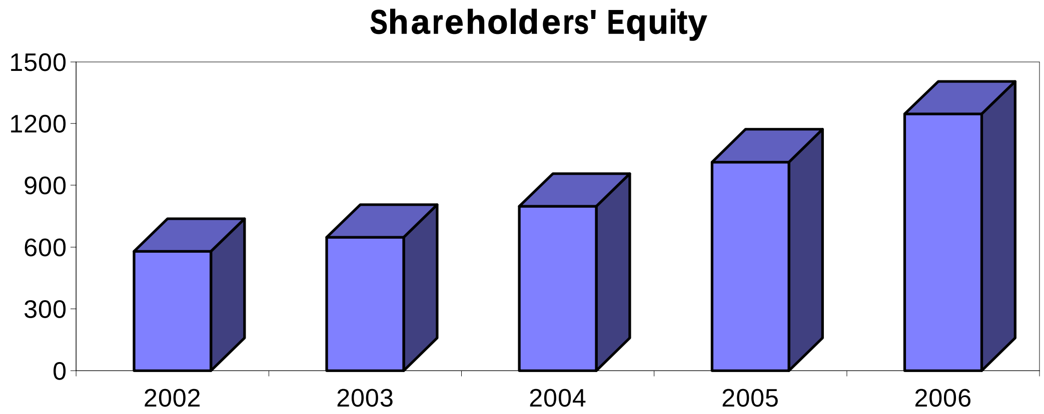


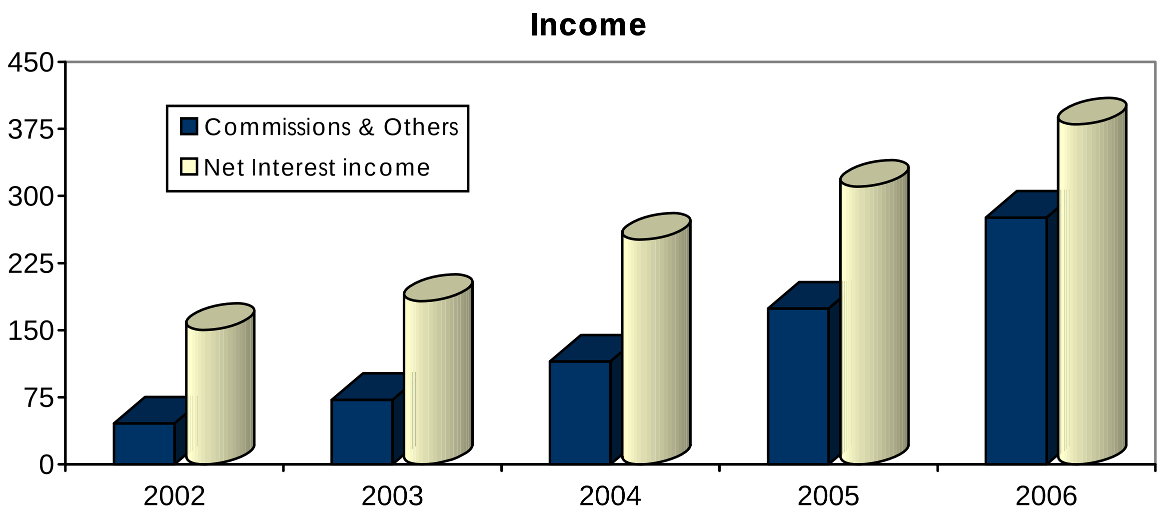
The National Bank of Ras Al-Khaimah (P.S.C.)

Financial highlights (continued)

All figures shown are in millions of UAE Dirhams.







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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 at 31 December 2006 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.

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

Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the bank as of 31 December 2006 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:

1. we have obtained all the information we considered necessary for the purpose of our audit;

2. the bank has maintained proper books of account and the financial statements are in agreement therewith;

3. the financial information included in the Directors' report is consistent with the books of account of the bank; and

4. nothing has come to our attention, which causes us to believe that the bank has breached any of the 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 2006.

Further, we report that nothing has come to our attention, which causes us to believe that the bank has breached any of the applicable provision of the UAE Union Law No (10) of 1980, as amended which would materially affect its activities or its financial position as at 31 December 2006.

PricewaterhouseCoopers
30 January 2007

Amin H Nasser
Registered Auditor Number 307

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

Balance sheet

	Notes	At 31 December 2006 AED'000	2005 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	5	832,760	563,044
Due from other banks	6	445,118	900,729
Loans and advances	7	6,813,469	5,343,300
Investment securities	8	498,699	321,150
Property and equipment	9	85,302	94,326
Other assets	10	166,946	73,969
Total assets		8,842,294	7,296,518
LIABILITIES			
Due to other banks	11	234,104	550,913
Due to customers	12	5,850,011	4,863,681
Debt security in issue	13	1,282,224	731,703
Other liabilities	14	213,394	125,972
Provision for employees' end of service benefits	15	15,463	11,361
Total liabilities		7,595,196	6,283,630
SHAREHOLDERS' EQUITY			
Share capital	16	536,250	412,500
Share premium	17	110,350	110,350
Retained earnings		234,688	175,259
Other reserves	18	365,810	314,779
Total shareholders' equity		1,247,098	1,012,888
Total liabilities and shareholders' equity		8,842,294	7,296,518

These financial statements were approved for issue by the Board of Directors on 28 January 2007 and were signed on its behalf by:

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

....
Graham Honeybill
General Manager

The notes on pages 11 to 36 form an integral part of these financial statements.

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

Income statement

	Notes	Year ended 31 December 2006 AED'000	2005 AED'000
Interest income	21	647,514	454,967
Interest expense	21	(267,119)	(144,553)
Net interest income		380,395	310,414
Fee and commission income	22	226,923	148,417
Foreign exchange income		17,176	10,728
Other operating income		32,011	14,973
Operating income		656,505	484,532
Operating expenses	23	(312,776)	(250,945)
Provision for impairment of loans and advances net of write (back)/off	7(d)	(84,919)	(48,332)
Net profit for the year		258,810	185,255
Earnings per share			
Basic	25	AED 0.48	AED 0.35

The notes on pages 11 to 36 form an integral part of these financial statements.

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

Statement of changes in shareholders' equity

	Notes	Share capital AED'000	Share Premium AED'000	Retained earnings AED'000	Other reserves AED'000	Total AED'000
At 1 January 2005		343,750	110,350	126,858	217,375	798,333
Net profit for the year		-	-	185,255	-	185,255
Transfer to legal reserve	18	-	-	(18,526)	18,526	-
Transfer to voluntary reserve	18	-	-	(14,578)	14,578	-
Transfer to credit risk reserve	18	-	-	(35,000)	35,000	-
Net change in available-for-sale investment securities	8,18	-	-	-	29,300	29,300
Issue of bonus shares	16	68,750	-	(68,750)	-	-
At 31 December 2005		412,500	110,350	175,259	314,779	1,012,888
Net profit for the year		-	-	258,810	-	258,810
Transfer to legal reserve	18	-	-	(25,881)	25,881	-
Transfer to voluntary reserve	18	-	-	(24,750)	24,750	-
Transfer to credit risk reserve	18	-	-	(25,000)	25,000	-
Net change in available-for-sale investment securities	8,18	-	-		(24,600)	(24,600)
Issue of bonus shares	16	123,750	-	(123,750)	-	-
At 31 December 2006		536,250	110,350	234,688	365,810	1,247,098

The notes on pages 11 to 36 form an integral part of these financial statements.

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

Cash flow statement

	Notes	Year ended 31 December 2006 AED'000	2005 AED'000
Operating activities			
Net profit for the year		258,810	185,255
Adjustments:			
Net charge for provision for impairment of loans and advances	7(d)	84,919	48,332
Depreciation	23	19,693	15,491
Provision for employees' end of service benefits	15	5,545	4,037
Gain on disposal of property and equipment		(177)	(137)
Amortisation of discount relating to investment securities held for maturity	8	(133)	(130)
Amortisation of discount relating to debt security in issue	13	(429)	(152)
Gain on disposal of investment securities		-	(2,202)
Operating cash flows before changes in assets and liabilities and payment of employees' end of service benefits		368,228	250,494
Payment of employees' end of service benefits	15	(1,443)	(2,383)
Changes in assets and liabilities:			
Deposits with the UAE Central Bank	5	(44,656)	428,966
Due from other banks with maturities over 3 months		36,729	(36,729)
Loans and advances net of provisions and amounts written (back)/off	7	(1,555,088)	(1,765,859)
Other assets	10	(92,977)	(4,956)
Due to other banks	11	(316,809)	246,524
Due to customers	12	986,330	848,310
Other liabilities	14	87,422	37,629
Net cash (used in)/ provided by operating activities		(532,264)	1,996
Investing activities			
Purchase of investment securities	8	(202,016)	(156,835)
Proceeds from sale of investment securities		-	18,252
Purchase of property and equipment	9	(10,757)	(47,959)
Proceeds from sale of property and equipment		265	137
Net cash used in investing activities		(212,508)	(186,405)
Financing activities			
Debt security in issue	13	550,950	734,600
Cash provided by financing activities		550,950	734,600
Net (decrease)/ increase in cash and cash equivalents		(193,822)	550,191
Cash and cash equivalents, beginning of the year		1,156,421	606,230
Cash and cash equivalents, end of the year	28	962,599	1,156,421

The notes on pages 11 to 36 form an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2006

1 Incorporation and principal activities

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

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

The bank is in the process of establishing a brokerage operation to deal in shares and bonds in the UAE, in connection with which it is in the process of obtaining regulatory approval.

2 Significant accounting policies

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

(a) Basis of preparation

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

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

<u>Amendments to published standards and interpretations effective 1 January 2006</u>

The application of the amendments and interpretations listed below did not result in substantial changes to the bank's accounting policies.

- IAS 19 (Amendment), Employee Benefits,
- IAS 39 (Amendment), The Fair Value Option;
- IAS 39 and IFRS 4 (Amendment), Financial Guarantee Contracts;
- IFRIC 4, Determining whether an Arrangement contains a Lease; and

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

Amendments to published standards and interpretations effective 1 January 2006 (continued)

The following amendments to published standards and interpretations effective 1 January 2006 are not applicable to the bank's operations:

- IAS 21 (Amendment), Net Investment in a Foreign Operation;
- IAS 39 (Amendment), Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- IFRS 1 (Amendment), First-time Adoption of International Financial Reporting Standards, and IFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;
- IFRS 6, Exploration for and Evaluation of Mineral Resources;
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds.
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment;

Interpretations issued but not yet effective

The bank has not early adopted the following standard and interpretations that were issued but not yet effective for accounting periods beginning on 1 January 2006:

- IFRS 7, Financial instruments: Disclosures, and amendment to IAS 1 – Capital disclosures (effective 1 January 2007);
- IFRS 8, Operating Segments (effective 1 January 2009);
- IFRIC 7, Applying the Restatement Approach under IAS 29 (effective 1 March 2006);
- IFRIC 8, Scope of IFRS 2 (effective 1 May 2006);
- IFRIC 9, Reassessment of embedded derivative (effective 1 June 2006);
- IFRIC 10, Interim Financial Reporting and Impairment (effective 1 November 2006);
- IFRIC 11, IFRS 2 – Group Treasury Share Transactions (effective 1 March 2007); and
- IFRIC 12, Service Concession Arrangements (effective 1 January 2008).

The application of these new standards and interpretations is not likely to have a material impact on the banks financial statements except as follows:

IFRS 7 – Financial Instruments: Disclosures, and a complementary amendment to International Accounting Standard ("IAS") 1, Presentation of Financial Statements – Capital Disclosures (effective 1 January 2007). IFRS 7 requires disclosures relating to the nature and risks arising from financial instruments. The bank has assessed the impact of IFRS 7 and the amendments to IAS 1 and has concluded that additional disclosures of significance will be required in respect of terms and conditions of pledges on financial assets, valuation techniques of investments securities, concentration of risk on financial instruments, maturity analyses of the financial liabilities and sensitivity analysis to market risk and the disclosures required by the amendments to IAS 1 relating to management of capital.

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 amount of the provision is the difference between the carrying amount and the recoverable amount, being the present value of expected future cash flows, including amounts recoverable from guarantees and collateral, discounted based on the interest rate prevailing at inception of the loan or advance or at the current effective interest rate in respect of a variable rate loan.

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

When a loan is uncollectable, it is written off against the related provision for impairment. If no related provision exists, it is written off to the statement of income. Subsequent recoveries are credited to the statement of income. If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the statement of income.

(c) Investment securities

The bank 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.

(c) Investment securities (continued)

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.

2 Significant accounting policies (continued)

(c) Investment securities (continued)

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 statement of income. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the bank has transferred substantially all risks and rewards of ownership.

Available-for-sale financial assets 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 statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in equity, until the financial asset is 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 interest income.

Dividends on available-for-sale equity instruments are recognised in the statement of income 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.

2 Significant accounting policies (continued)

(d) Property and equipment

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

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

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

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

(e) Employee benefits

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

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

(e) Employee benefits (continued)

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

(f) Provisions

Provisions are recognised when the bank has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

2 Significant accounting policies (continued)

(g) Debt security in issue

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

(h) Foreign currencies

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

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

(i) Interest income and expense

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

j) Fee and commission income

Fee income charged to customers is recognised when the underlying service has been provided.

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

(k) Cash and cash equivalents

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

(l) Fiduciary assets

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

(m) 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.

2 Significant accounting policies (continued)

(n) 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.

3 Financial risk management

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.

CREDIT RISK

Credit risk is defined as the risk that RAKBANK'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 loss in terms of cash flow or market value. 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 RAKBANK's largest risk, considerable resources, expertise and controls are devoted to manage this within the core Department's of the Bank.

- The credit policy provides the development of a systematic and consistent approach to identify and manage borrower and counter party risks contained in all Retail, Corporate and SME assets.

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

3 Financial risk management (continued)

MARKET RISK

Market risk is the risk of loss of value of a financial instrument or a portfolio of financial instruments as result of changes in market prices and rates. It also includes risk that RAKBANK's earnings or capital, or its ability to meet business objectives, will be adversely affected by changes in the level or volatility of market rates or prices such as interest rates, foreign exchange rates, and equity prices.

The bank has very limited exposures to market risk as the bank is not involved in proprietary trading and most of its investments are in interest bearing securities.

Interest rate risk

Interest rate risk results from exposure to changes in the level, slope, curvature and volatility of interest rates and credit spreads.

Interest rate risk exposures arise due to mismatches of fixed interest rate assets and floating interest rate liabilities. This is monitored through the use of a detailed gap report and stress tests to analyse the impact anticipated movements in interest rates

Liquidity risk management

The Bank manages its liquidity in accordance with Central Bank of the U.A.E. requirements and 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% between demand and time deposits. The Central Bank of the U.A.E. also imposes a 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 routine basis.

Open foreign exchange positions

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 & Liabilities Committee (ALCO).

Asset and Liability Committee ("ALCO")

ALCO meets on a quarterly basis (or more often if required) and is made up of the General Manager, the Head of Treasury, the Head of Finance, the Heads of Credit, the Head of Corporate Banking and the Head of Personal Banking.

ALCO is responsible to formalise the bank's key financial indicators and ratios, set the thresholds to manage and monitor the liquidity 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 Financial risk management (continued)

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.

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

(b) Impairment of available for-sale equity investments

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

4 Critical accounting estimates, and judgements in applying accounting policies (continued)

(c) Held-to-maturity investments

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

5 Cash and balances with the UAE Central Bank

	2006 AED'000	2005 AED'000
Cash in hand (Note 28)	138,794	105,756
Current account with the UAE Central Bank (Note 28)	49,687	57,665
Statutory deposit with the UAE Central Bank	315,279	270,623
Certificates of deposit with the UAE Central Bank (Note 28)	329,000	129,000
	832,760	563,044

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

6 Due from other banks

	2006 AED'000	2005 AED'000
Placements with other banks	416,778	650,604
Demand deposits	28,340	250,125
	445,118	900,729

7 Loans and advances

7(a) Loans and advances

Loans		6,432,988	4,975,890
Overdrafts		469,333	467,300
Loans against trust receipts		81,991	45,033
Bills discounted		22,397	23,920
Others		1,910	496
Total loans and advances	7 (b)	7,008,619	5,512,639
Provision for impairment	7 (c)	(195,150)	(169,339)
Net loans and advances		6,813,469	5,343,300

7(b) By economic sector

Personal loans and others	5,877,522	4,736,538
Manufacturing	239,238	215,301
Wholesale and retail trade	379,771	189,054
Services	184,643	140,819
Construction	116,127	105,650
Transport and communication	117,439	65,376
Financial institutions	17,583	33,671
Mining and quarrying	38,807	22,914
Government	37,489	3,316
	7,008,619	5,512,639

7(c) Provision for impairment

Balance brought forward	169,339	180,753
Net charge for provision for impairment	87,144	45,479
Written off during the year	(61,333)	(56,893)
Balance carried forward	195,150	169,339

The provision for impairment comprises AED 126.1 million (2005: AED 110.3 million) set aside in respect of specific bad and doubtful loans and AED 69.0 million (2005: AED 59.0 million) to cover the risk inherent in the portfolio.

7(d) Net charge for the year

	2006 AED'000	2005 AED'000
Net charge for provision for impairment	87,144	45,479
Write (back)/ off during the year	(2,225)	2,853

	84,919	48,332

7 Loans and advances (continued)

7(e) Classified loans and advances

At 31 December 2006, the aggregate amount of non-performing loans amounted to AED 244.8 million (2005: AED 179.3 million). Provisions in relation to such loans amounted to AED 126.1 million as at 31 December 2006 (2005: AED 110.3 million).

At 31 December 2006 the aggregate amount of secured loans amounted to AED 2,877 million (2005: AED 2,108 million).

8 Investment securities

	2006 AED'000	2005 AED'000
Securities available-for-sale		
Quoted equity securities	14,800	39,400
Quoted debt securities	110,005	91,640
Unquoted debt securities	238,746	55,095
	363,551	186,135
Securities held-to-maturity		
Quoted debt securities	135,148	135,015
	135,148	135,015
Total investment securities	498,699	321,150

The movement in investment securities is summarised as follows:

	Securities available-for-sale AED'000	**Securities held – to – maturity** AED'000	**Total** AED'000
At 1 January 2005	16,050	134,885	150,935
Purchases	156,835	-	156,835
Disposals	(16,050)	-	(16,050)
Changes in fair value	29,300	-	29,300
Amortisation of discount	-	130	130
At 31 December 2005	186,135	135,015	321,150
Purchases	202,016	-	202,016
Changes in fair value	(24,600)	-	(24,600)
Amortisation of discount	-	133	133

At 31 December 2006	363,551	135,148	498,699

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

Notes to the financial statements for the year ended 31 December 2006 (continued)

9 Property and equipment

	Land and buildings AED'000	Leasehold improvements AED'000	Other assets AED'000	Total AED'000
Cost				
1 January 2006	59,619	20,763	77,724	158,106
Additions	220	976	9,561	10,757
Disposals/write off	-	(111)	(776)	(887)
31 December 2006	59,839	21,628	86,509	167,976
Depreciation				
1 January 2006	7,411	10,772	45,597	63,780
Charge for the year	854	3,608	15,231	19,693
Disposals/write off	-	(23)	(776)	(799)
31 December 2006	8,265	14,357	60,052	82,674
Net book amount				
31 December 2006	51,574	7,271	26,457	85,302
Cost				
1 January 2005	37,162	15,389	59,566	112,117
Additions	22,460	5,434	20,065	47,959
Disposals/write off	(3)	(60)	(1,907)	(1,970)
31 December 2005	59,619	20,763	77,724	158,106
Depreciation				
1 January 2005	6,543	8,099	35,617	50,259
Charge for the year	871	2,733	11,887	15,491
Disposals/write off	(3)	(60)	(1,907)	(1,970)
31 December 2005	7,411	10,772	45,597	63,780
Net book amount				
31 December 2005	52,208	9,991	32,127	94,326

Included in land and buildings is land costing AED 46.51 million (2005: AED 46.51 million).

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

	2006 AED'000	2005 AED'000

10 Other assets

	2006 AED'000	2005 AED'000
Cheques held for collection	79,007	44,011
Prepayments and deposits	23,745	12,012
Others	64,194	17,946
	166,946	73,969

11 Due to other banks

Term deposits	223,043	548,825
Demand deposits	11,061	2,088
	234,104	550,913

12 Due to customers

Time deposits	3,803,279	3,127,781
Savings deposits	219,720	200,006
Call deposits	305,514	424,052
Current accounts	1,521,498	1,111,842
	5,850,011	4,863,681

There is no significant concentration of customer deposits.

13 Debt security in issue

US$ medium-term note	1,285,550	734,600
Less: debt security issue costs	(3,326)	(2,897)
	1,282,224	731,703

The bank has established a Medium Term Note Program for USD 500 million, of which USD 200 million was issued in 2005 and USD 150 million in March 2006. The note mature in 2010 and carry an interest rate of six months Libor + 55bps per annum.

14 Other liabilities

Managers cheques issued	55,117	39,036
Accrued expenses	30,898	20,944
Others	127,379	65,992
	213,394	125,972

15 Provision for employees' end of service benefits

At 1 January	11,361	9,707
Charge for the year (Note 24)	5,545	4,037
Payment during the year	(1,443)	(2,383)
At 31 December	15,463	11,361

16 Share capital

The authorised, issued and fully paid share capital of the bank comprises 536.25 million shares of AED 1 each (2005: 412.5 million shares of AED 1 each).

At the meeting of the shareholders held on 11 March 2006, a stock dividend (issue of bonus shares) for 2005 at 30% of the issued and paid up capital amounting to AED 123.75 million (2004: AED 68.75 million) were approved.

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.

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
At 1 January 2005	84,453	67,922	50,000	15,000	-	217,375
Additions during the year	18,526	14,578	-	35,000	29,300	97,404
At 31 December 2005	102,979	82,500	50,000	50,000	29,300	314,779
Additions during the year	25,881	24,750	-	25,000	(24,600)	51,031
At 31 December 2006	128,860	107,250	50,000	75,000	4,700	365,810

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

	2006 AED'000	2005 AED'000
Guarantees	520,223	491,266
Letters of credit	95,479	75,748
Acceptances	32,127	25,753
Commitments to extend credit	648,759	564,421
Other	124	1,449
	1,296,712	1,158,637

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

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

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

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

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 2006	116,056	52
31 December 2005	117,146	(35)

	2006 AED'000	2005 AED'000
21 Interest income and expense		
Interest income		
Personal loans	260,629	178,562
Credit cards	132,614	91,039
Commercial loans and overdrafts	112,598	84,056
Auto loans	88,213	67,248
Other banks	29,396	21,742
Deposits with the UAE Central Bank	15,411	8,123
Others	8,653	4,197
	647,514	454,967
Interest expense		
Due to customers	174,459	120,460
Borrowings from other banks	92,660	24,093
	267,119	144,553

22 Fee and commission income

	2006 AED'000	2005 AED'000
Fees and commissions	185,043	118,239
Documentary credits and guarantees	6,181	5,650
Transfers	2,432	1,471
Others	33,267	23,057
	226,923	148,417

23 Operating expenses

	2006 AED'000	2005 AED'000
Staff costs (Note 24)	141,137	109,247
Marketing expenses	18,784	21,088
Occupancy costs	19,230	15,110
Depreciation (Note 9)	19,693	15,491
Services	16,035	18,501
Computer expenses	7,026	5,196
Commission and rebates	12,029	12,296
Legal and consultancy fees	10,942	8,560
Others	67,900	45,456
	312,776	250,945

24 Staff costs

	2006 AED'000	2005 AED'000
Salaries and allowances	127,262	98,636
Pension	2,939	2,145
End of service benefits (Note 15)	5,545	4,037
Staff training	560	863
Others	4,831	3,566
	141,137	109,247

25 Earnings per share

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

	2006	2005
Net profit for the year in AED	258,809,605	185,254,586
Weighted average number of shares in issue	536,250,000	536,250,000
Basic earnings per share in AED	0.48	0.35

There were no potentially dilutive shares as at 31 December 2006 and 31 December 2005.

26 Dividends

At the meeting held on 28 January 2007, the Board of Directors proposed a stock dividend (issue of bonus shares) at 15% and a cash dividend of 15% of the issued and paid up capital amounting to AED161 million in respect of the year 2006 (2005: AED 124 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 2007 after it has been approved by the shareholders.

27 Related party transactions and balances

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

	2006 AED'000	2005 AED'000
Transactions		
Interest income	2,256	1,749
Interest expense	11,739	4,012
Commission income	380	170
Directors' remuneration	760	860
Remuneration payable to key management personnel	9,010	7,006
Balances		
Loans and advances at 31 December	64,446	34,347
Due to customers at 31 December	390,128	404,628
Irrevocable commitments and contingent liabilities at 31 December	58,735	39,687

28 Cash and cash equivalents

	2006 AED'000	2005 AED'000
Cash (Note 5)	138,794	105,756
Current account with the UAE Central Bank (Note 5)	49,687	57,665
Certificates of deposit with the UAE Central Bank (Note 5)	329,000	129,000
Due from other banks (Note 6)	445,118	864,000
	962,599	1,156,421

29 Business segments

The bank is organised into three main business segments:

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

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

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

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

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

Notes to the financial statements for the year ended 31 December 2006 (continued)

29 Business segments (continued)

Primary segment information

	Retail banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Eliminations AED'000	Total AED'000
31 December 2006					
External revenue	802,410	46,040	75,174	-	923,624
Revenues from other segments	102,051	53,055	124,444	(279,550)	-
Total revenues	904,461	99,095	199,618	(279,550)	923,624
Segment result	233,109	38,214	44,132	-	315,455
Unallocated costs	-	-	-	-	(56,645)
Net profit for the year					258,810
Segment assets	6,600,788	526,834	1,571,385	-	8,699,007
Unallocated assets	-	-	-	-	143,287
Total assets					8,842,294
Segment liabilities	3,895,877	1,453,236	2,142,206	-	7,491,319
Unallocated liabilities	-	-	-	-	103,877
Total liabilities					7,595,196

Notes to the financial statements for the year ended 31 December 2006 (continued)

29 Business segments (continued)

Primary segment information

	Retail banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Eliminations AED'000	Total AED'000
31 December 2005					
External revenue	559,856	25,353	43,876	-	629,085
Revenues from other segments	55,729	35,795	55,436	(146,960)	-
Total revenues	615,585	61,148	99,312	(146,960)	629,085
Segment result	179,841	14,842	30,626	-	225,309
Unallocated costs	-	-	-	-	(40,054)
Net profit for the year					185,255
Segment assets	5,276,735	287,006	1,596,126	-	7,159,867
Unallocated assets	-	-	-	-	136,651
Total assets					7,296,518
Segment liabilities	3,602,718	909,508	1,682,086	-	6,194,312
Unallocated liabilities	-	-	-	-	89,318
Total liabilities					6,283,630

30 Geographical concentration of assets and liabilities

	Total assets AED'000	Total liabilities AED'000	Off balance sheet items AED'000
At 31 December 2006			
Within UAE	8,453,313	5,903,137	1,194,854
OECD countries	265,294	1,518,688	98,995
Others	123,687	173,371	2,863
	8,842,294	7,595,196	1,296,712
At 31 December 2005			
Within UAE	6,723,728	5,148,001	1,072,764
OECD countries	450,476	887,367	84,649
Others	122,314	248,262	1,224
	7,296,518	6,283,630	1,158,637

31 Currency risk

Concentration of assets and liabilities by currency:

At 31 December 2006	**AED**	**USD**	**Others**	**Total**
	AED'000	AED'000	AED'000	AED'000
Assets				
Cash and balances with the UAE Central Bank	778,034	54,673	53	832,760
Due from other banks	179,551	212,002	53,565	445,118
Loans and advances	6,682,473	83,713	47,283	6,813,469
Investment securities	94,853	403,846	-	498,699
Property and equipment and other assets	241,613	3,149	7,486	252,248
Total assets	7,976,524	757,383	108,387	8,842,294
Liabilities				
Due to other banks	137,774	86,313	10,017	234,104
Due to customers	5,028,124	688,534	133,353	5,850,011
Debt security in issue	-	1,282,224	-	1,282,224
Other liabilities and provision for employees' end of service benefits	148,850	24,958	55,049	228,857
Total liabilities	5,314,748	2,082,029	198,419	7,595,196
Net balance sheet position	2,661,776	(1,324,646)	(90,032)	1,247,098
At 31 December 2005				
Total assets	5,947,634	1,231,788	117,096	7,296,518
Total liabilities	4,757,896	1,413,563	112,171	6,283,630
Net balance sheet position	1,189,738	(181,775)	4,925	1,012,888

32 Interest rate risk

Interest sensitivity of assets and liabilities

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

	Less than 3 months	From 3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total	Effective interest rate
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	%
At 31 December 2006							
Assets							
Cash and balances with the UAE Central Bank	329,000	-	-	-	503,760	832,760	4.90
Due from other banks	416,778	-	-	-	28,340	445,118	5.21
Loans and advances	1,638,706	2,021,827	1,602,286	1,546,726	3,924	6,813,469	10.38
Investment securities	238,745	245,154	-	-	14,800	498,699	4.90
Property and equipment and other assets	-	-	-	-	252,248	252,248	-
Total	2,623,229	2,266,981	1,602,286	1,546,726	803,072	8,842,294	
Liabilities and shareholders' equity							
Due to other banks	186,316	36,727	-	-	11,061	234,104	5.67
Due to customers	3,839,096	790,417	14,725	-	1,205,773	5,850,011	3.66
Debt security in issue	-	1,282,224	-	-	-	1,282,224	5.92
Other liabilities and provision for employees' end of service benefits	-	-	-	-	228,857	228,857	-
Shareholders' equity	-	-	-	-	1,247,098	1,247,098	-
Total	4,025,412	2,109,368	14,725	-	2,692,789	8,842,294	
Interest rate sensitivity gap	(1,402,183)	157,613	1,587,561	1,546,726	(1,889,717)	-	

32 Interest rate risk (continued)

	Less than 3 months	From 3 months to 1 year	1-5 years	Over 5 years	Non-interest bearing	Total	Effective interest rate
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	%
At 31 December 2005							
Assets							
Cash and balances with the UAE Central Bank	129,000	-	-	-	434,044	563,044	4.61
Due from other banks	650,604	-	-	-	250,125	900,729	4.13
Loans and advances	1,354,658	1,758,616	1,589,808	636,583	3,635	5,343,300	9.08
Investment securities	55,096	226,654	-	-	39,400	321,150	4.19
Property and equipment and other assets	-	-	-	-	168,295	168,295	-
Total	2,189,358	1,985,270	1,589,808	636,583	895,499	7,296,518	
Liabilities and shareholders' equity							
Due to other banks	457,000	91,825	-	-	2,088	550,913	5.35
Due to customers	3,203,792	703,364	24,710	-	931,815	4,863,681	2.97
Debt security in issue	-	731,703	-	-	-	731,703	4.84
Other liabilities and provision for employees' end of service benefits	-	-	-	-	137,333	137,333	-
Shareholders' equity	-	-	-	-	1,012,888	1,012,888	-
Total	3,660,792	1,526,892	24,710	-	2,084,124	7,296,518	
Interest rate sensitivity gap	(1,471,434)	458,378	1,565,098	636,583	(1,188,625)	-	

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

Notes to the financial statements for the year ended 31 December 2006 (continued)

33 Assets and liabilities maturity profile

	Up to 3 months AED'000	3 – 12 months AED'000	1 – 5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2006					
Assets					
Cash and balances with the UAE Central Bank	832,760	-	-	-	832,760
Due from other banks	445,118	-	-	-	445,118
Loans and advances	1,766,615	302,464	1,682,266	3,062,124	6,813,469
Investment securities	363,551	-	135,148	-	498,699
Property and equipment, and other assets	73,590	4,099	-	174,559	252,248
Total	3,481,634	306,563	1,817,414	3,236,683	8,842,294
Liabilities and shareholders' equity					
Due to other banks	11,061	123,043	100,000	-	234,104
Due to customers	5,044,869	790,417	14,725	-	5,850,011
Debt security in issue	-	-	1,282,224	-	1,282,224
Other liabilities and provision for employees' end of service benefits	213,394	-	-	15,463	228,857
Shareholders' equity	-	-	-	1,247,098	1,247,098
Total	5,269,324	913,460	1,396,949	1,262,561	8,842,294
Net liquidity gap	(1,787,690)	(606,897)	420,465	1,974,122	-
At 31 December 2005					
Total assets	2,907,908	887,378	2,217,871	1,283,361	7,296,518
Total liabilities and equity	4,519,967	895,189	856,413	1,024,949	7,296,518
Net liquidity gap	(1,612,059)	(7,811)	1,361,458	258,412	-

33 Assets and liabilities maturity profile (continued)

Net liquidity gap

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

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

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

34 Fiduciary activities

The bank holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2006, such assets amounted to AED 287.94 million (2005: AED 182.6 million) and are excluded from the financial statements of the bank.

35 Fair values

At 31 December 2006 and 31 December 2005, the fair value of the bank's financial assets and liabilities approximate their net carrying amounts as disclosed in these financial statements.