

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

**Condensed consolidated interim financial
information for the nine months ended
30 September 2013**

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

Condensed consolidated interim financial information for the nine months ended 30 September 2013

	Pages
Review report	1
Condensed consolidated statement of financial position	2
Condensed consolidated income statement	3
Condensed consolidated statement of comprehensive income	4
Condensed consolidated statement of changes in equity	5
Condensed consolidated statement of cash flows	6 – 7
Notes to the condensed consolidated interim financial information	8 – 37



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

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of The National Bank of Ras Al-Khaimah (P.S.C.) ("the Bank") and its subsidiaries (together referred to as "the Group") as at 30 September 2013 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the nine month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

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

PricewaterhouseCoopers
22 October 2013

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

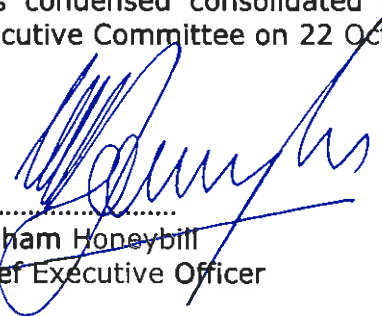
PricewaterhouseCoopers, Emaar Square, Building 4, Level 8, PO Box 11987, Dubai, United Arab Emirates T: +971 (0)4 304 3100, F: +971 (0)4 330 4100, www.pwc.com/middle-east

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

Condensed consolidated statement of financial position

	Notes	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
ASSETS			
Cash and balances with UAE Central Bank	3	2,600,472	2,904,054
Due from other banks	4	660,330	1,195,831
Loans and advances	5	20,758,850	20,283,427
Islamic financing assets	6	913,745	-
Investment securities	7	2,585,705	1,586,878
Property and equipment	8	1,051,945	1,035,773
Other assets	9	294,048	244,174
Total assets		28,865,095	27,250,137
LIABILITIES			
Due to other banks		316,674	233,841
Deposits from customers	10	20,290,679	20,719,725
Islamic customer deposits	11	1,369,890	-
Other liabilities	12	580,959	539,914
Provision for employees' end of service benefits		64,842	61,442
Total liabilities		22,623,044	21,554,922
Equity			
Share capital	13	1,676,245	1,523,859
Share premium		110,350	110,350
Retained earnings		1,558,608	1,183,109
Other reserves	14	2,896,848	2,877,897
Total equity		6,242,051	5,695,215
Total liabilities and equity		28,865,095	27,250,137

This condensed consolidated interim financial information was approved by the Executive Committee on 22 October 2013 and was signed on its behalf by:



 Graham Honeybill
 Chief Executive Officer

The notes on pages 8 to 37 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated income statement (reviewed)

	Notes	<u>Three months ended</u> <u>30 September</u>		<u>Nine months ended</u> <u>30 September</u>	
		2013 AED'000	2012 AED'000	2013 AED' 000	2012 AED '000
Interest income	17	646,640	655,893	1,921,708	1,919,372
Interest expense	17	(57,734)	(88,184)	(193,540)	(263,517)
Net interest income		588,906	567,709	1,728,168	1,655,855
Income from Islamic financing	18	15,231	-	24,467	-
Distribution to depositors	18	(3,579)	-	(5,761)	-
Income from Islamic financing net of distribution to depositors		11,652	-	18,706	-
Net interest income and income from Islamic products net of distribution to depositors		600,558	567,709	1,746,874	1,655,855
Net fees and commission income	19	132,632	122,749	398,268	363,662
Foreign exchange income		18,793	18,465	55,682	50,650
Investment income	20	27,365	18,450	100,388	53,638
Other operating income		12,507	9,943	33,492	21,715
Operating income		791,855	737,316	2,334,704	2,145,520
Operating expenses		(349,565)	(325,040)	(1,014,189)	(949,915)
Provision for impairment of loans and advances net of write backs	5,6(a)	(64,939)	(42,797)	(183,087)	(157,444)
Net profit for the period		377,351	369,479	1,137,428	1,038,161
Earnings per share					
Basic and diluted	21	AED 0.23	AED 0.22	AED 0.68	AED 0.62

The notes on pages 8 to 37 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of comprehensive income (reviewed)

		<u>Three months ended</u> <u>30 September</u>		<u>Nine months ended</u> <u>30 September</u>	
	Notes	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Profit for the period		377,351	369,479	1,137,428	1,038,161
Other comprehensive income:					
Net changes in fair value of available-for-sale investment securities	7	1,843	702	18,951	9,456
Release of fair value loss/(profit) to income statement on maturity of available-for-sale investment securities		-	-	-	1,515
Other comprehensive income for the period		<u>1,843</u>	<u>702</u>	<u>18,951</u>	<u>10,971</u>
Total Comprehensive income for the period		<u><u>379,194</u></u>	<u><u>370,181</u></u>	<u><u>1,156,379</u></u>	<u><u>1,049,132</u></u>

The notes on pages 8 to 37 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of changes in equity (reviewed)

	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Total AED'000
At 1 January 2012	1,385,327	110,350	1,157,426	2,043,769	4,696,872
Transfer to regulatory credit risk reserve (Note 14)	-	-	(240,000)	240,000	-
Issue of Bonus Shares (Note 13)	138,532	-	(138,532)	-	-
Dividend (Note 13)	-	-	(415,598)	-	(415,598)
Total comprehensive income for the period	-	-	1,038,161	10,971	1,049,132
At 30 September 2012	<u>1,523,859</u>	<u>110,350</u>	<u>1,401,457</u>	<u>2,294,740</u>	<u>5,330,406</u>
At 1 January 2013	1,523,859	110,350	1,183,109	2,877,897	5,695,215
Issue of bonus shares (Note 13)	152,386	-	(152,386)	-	-
Dividend (Note 13)	-	-	(609,543)	-	(609,543)
Total comprehensive income for the period	-	-	1,137,428	18,951	1,156,379
At 30 September 2013	<u>1,676,245</u>	<u>110,350</u>	<u>1,558,608</u>	<u>2,896,848</u>	<u>6,242,051</u>

The notes on pages 8 to 37 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of cash flows

(reviewed)

	Notes	<u>Nine months ended 30</u>	
		<u>September</u>	
		2013	2012
		AED'000	AED'000
Operating activities			
Net Profit for the period		1,137,428	1,038,161
Adjustments:			
Provision for impairment of loans and advances net of write backs	5(d)	180,378	157,444
Provision for impairment of Islamic Financing assets	6(a)	2,709	-
Depreciation	8	93,353	70,384
Provision for employees' end of service benefits		10,074	12,721
Gain on disposal of property and equipment		(284)	(332)
Amortisation of premium / (discount) relating to securities held to maturity	7	9,476	(1,610)
(Gain) / loss on sale investment securities		(13,014)	1,515
		<hr/>	<hr/>
Operating cash flows before payment of employees end of service benefits and changes in assets and liabilities:		1,420,120	1,278,283
Payment of employees' end of service benefits		(6,674)	(4,784)
Changes in assets and liabilities:			
Deposits with the UAE Central Bank	3	306,833	(875,446)
Due from other banks with original maturities of three months or over		206,952	(261,462)
Loans and advances, Islamic Financing assets net of provisions for impairment	5,6	(1,572,255)	(1,876,713)
Other assets	9	(49,874)	(30,825)
Due to other banks (net of amount due to Central Bank)		216,209	(234,427)
Deposits from customers	10	(429,046)	2,290,593
Islamic customer deposits	11	1,369,890	-
Other liabilities	12	41,045	72,216
		<hr/>	<hr/>
Net cash generated from operating activities		1,503,200	357,435
Investing activities			
Purchase of investment securities	7	(1,468,168)	(641,073)
Purchase of property and equipment	8	(109,609)	(146,668)
Proceeds from maturity / disposal of investments		491,830	228,970
Proceeds from disposal of property and equipment		368	755
		<hr/>	<hr/>
Net cash used in investing activities		(1,085,579)	(558,016)

The notes on pages 8 to 37 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of cash flows

(reviewed) (continued)

		<u>Nine months ended 30</u>	
		<u>September</u>	
	Notes	2013	2012
		AED'000	AED'000
Financing activities			
Dividends Paid		(609,543)	(415,598)
Subordinated debt repayment		-	(684,467)
		<hr/>	<hr/>
Net cash used in financing activities		(609,543)	(1,100,065)
		<hr/>	<hr/>
Net decrease in cash and cash equivalents		(191,922)	(1,300,646)
Cash and cash equivalents, beginning of the period		1,364,199	2,233,818
		<hr/>	<hr/>
Cash and cash equivalents, end of the period	23	<u>1,172,277</u>	<u>933,172</u>

The notes on pages 8 to 37 form an integral part of the condensed consolidated interim financial statements

(7)

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013

1 Incorporation and principal activities

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

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

At 30 September 2013, The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and three subsidiaries (together the "Group"). These subsidiaries are RAK Islamic Finance Pvt. J.S.C in which the Bank owns 99.9% , BOSS FZCO and RAK Technologies FZCO in which the Bank owns 80%. RAK Islamic Finance Pvt. J.S.C has an authorised and issued capital of AED 100 million, and was incorporated to enable the Bank to sell sharia compliant financial products. BOSS FZCO and RAK Technologies FZCO has been incorporated to provide back office support services to the Bank. Both BOSS FZCO and RAK Technologies FZCO have an authorised and issued share capital of AED 500,000 each and were formed under the Dubai Silicon Oasis Authority guidelines.

The condensed consolidated interim financial information for the nine months ended 30 September 2013 comprises the Bank and its subsidiaries (together referred to as "the Group").

2 Significant accounting policies

2.1 Basis of preparation

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

The accounting policies applied in the preparation of the condensed consolidated interim financial information are consistent with those applied in the annual financial statements for the year ended 31 December 2012. The policies below are not a complete list of significant accounting policies which are included in the 2012 Financial Statements.

The condensed consolidated interim financial information should therefore be read in conjunction with the annual financial statements for year ended 31 December 2012.

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

Standards and amendments to published standards effective for the Group's accounting period beginning on 1 January 2013

The following applicable new standards and amendment to an existing standard have been published and are effective for the Group's accounting periods beginning on 1 January 2013.

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income (effective 1 July 2012). These amendments require entities to group items presented in other comprehensive income (OCI) on the basis of whether they are potentially re-classifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.
- IFRS 10 'Consolidated financial statements' (effective 1 January 2013). This standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard provides additional guidance to assist in determining control where this is difficult to assess.
- IAS 27, (revised 2011) 'Separate financial statements' (effective 1 January 2013). This standard includes the provision on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. This standard shall be applied in accounting for investments in subsidiaries, joint ventures and associates when an entity prepares or elects to prepare separate financial statements.
- With effect from January 1, 2013, the Group has adopted IFRS 13, Fair value Measurement which aims to improve consistency and reduce complexity by providing a precise definition of fair value and improving disclosure requirements for use across IFRSs. It applies to both financial and non-financial instruments carried at fair value and requires additional disclosures in the condensed consolidated financial information. The disclosure note requirements are set out in Note 27 and Note 28.

Management has assessed the impact of the above new standards and amendment to existing standard, except IFRS 13, Fair Value Measurement which was adopted from 1 January 2013 and has concluded that there is no significant impact expected from the same on the Group's condensed consolidated interim financial statements, but is expected to result in additional disclosures in the consolidated financial statements for the year ended 31 December 2013.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

The following applicable new standard has been issued but is not effective for the Group's accounting period beginning 1 January 2013 and has not been early adopted by the Group:

- Amendments to IAS 32 Financial Instruments (effective 1 January 2014) requires presentation to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:
 - the meaning of 'currently has a legally enforceable right of set-off'
 - the application of simultaneous realisation and settlement
 - the offsetting of collateral amounts
 - the unit of account for applying the offsetting requirements

These amendments will not have a material impact on the Group's condensed consolidated interim financial information.

- Amendments to IFRS 10 Consolidated Financial Statements, IFRS 12 Disclosure of Interests in Other Entities and IAS 27 Separate Financial Statements (effective 1 January, 2014) relate only to investment entities, therefore will not apply to the Group.
- Amendment to IAS 36 Impairment (effective 1 January 2014) of Assets to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique.
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement (effective 1 January 2014) make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

2.1 Basis of preparation (continued)

2.1 Basis of preparation (continued)

- IFRS 9, 'Financial instruments' (effective 1 January 2015), addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the consolidated income statement, unless this creates an accounting mismatch.

The Group is in the process of assessing the impact of the above standard.

2.2 Functional and presentation currency

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

2 Significant accounting policies (continued)

2.3 Basis of consolidation

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

Subsidiaries

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

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

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

Transactions and balances eliminated on consolidation

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

2 Significant accounting policies (continued)

2.4 Loans and advances and provision for impairment

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

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

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

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

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

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

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

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

2 Significant accounting policies (continued)

2.4 Loans and advances and provision for impairment (continued)

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

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

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

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

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

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

2 Significant accounting policies (continued)

2.5 Islamic financing

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

Murabaha financing

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

Salam

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

Mudaraba

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

Wakala

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

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

2.6 Investment securities

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

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

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

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

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

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

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

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

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

2 Significant accounting policies (continued)

2.6 Investment securities (continued)

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

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

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

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

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

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

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

3 Cash and balances with the UAE Central Bank

	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
Cash in hand	511,947	508,696
Statutory deposit with the UAE Central Bank	1,938,525	1,645,358
Certificates of deposit with the UAE Central Bank	150,000	750,000
	<u>2,600,472</u>	<u>2,904,054</u>

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

4 Due from other banks

	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
Placements with other banks	451,779	664,580
Demand deposits	86,858	413,786
Clearing account balances	121,693	117,465
	<u>660,330</u>	<u>1,195,831</u>
The below represents deposits and balances due from:		
Banks in UAE	573,772	782,095
Banks outside UAE	86,558	413,736
	<u>660,330</u>	<u>1,195,831</u>

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

5 Loans and advances

	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
5(a) Loans and advances		
Retail loans	20,248,091	20,082,704
Corporate loans	816,136	524,833
Loans and advances (Note 5(b))	21,064,227	20,607,537
Provision for impairment (Note 5(c))	(305,377)	(324,110)
Net loans and advances	<u>20,758,850</u>	<u>20,283,427</u>

5(b) Analysis of loans and advances

Commercial loans and overdrafts	9,714,109	9,600,684
Retail loans	6,922,182	7,051,179
Credit cards	2,804,100	2,713,784
Auto loans	1,623,836	1,241,890
Total loans and advances	<u>21,064,227</u>	<u>20,607,537</u>

5(c) Provision for impairment

	Retail Loans AED'000	Corporate loans AED'000	Total AED'000
Balance brought forward 1 January 2013	292,203	31,907	324,110
Impairment charge/(release) (Note 5(d))	219,237	(330)	218,907
Written off during the period	(237,364)	(276)	(237,640)
Balance carried forward 30 September 2013 (reviewed)	<u>274,076</u>	<u>31,301</u>	<u>305,377</u>
Balance brought forward 1 January 2012	305,351	32,627	337,978
Impairment charge/(release)	250,751	(302)	250,449
Written off during the year	(263,899)	(418)	(264,317)
Balance carried forward 31 December 2012 (audited)	<u>292,203</u>	<u>31,907</u>	<u>324,110</u>

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

5 Loans and advances (continued)

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

	Retail Loans AED'000	Corporate loans AED'000	Total AED'000
<u>Three months ended</u> <u>30 September 2013 (reviewed)</u>			
Impairment Charge/(release)	75,517	(738)	74,779
Recovery during the period	(12,384)	-	(12,384)
	<u>63,133</u>	<u>(738)</u>	<u>62,395</u>
<u>30 September 2012 (reviewed)</u>			
Impairment Charge/(release)	53,078	(332)	52,746
Recovery during the period	(9,949)	-	(9,949)
	<u>43,129</u>	<u>(332)</u>	<u>42,797</u>
<u>Nine months ended</u> <u>30 September 2013 (reviewed)</u>			
Impairment charge/(release)	219,237	(330)	218,907
Recovery during the period	(38,529)	-	(38,529)
	<u>180,708</u>	<u>(330)</u>	<u>180,378</u>
<u>30 September 2012 (reviewed)</u>			
Impairment charge/(release)	188,609	(364)	188,245
Recovery during the period	(30,801)	-	(30,801)
	<u>157,808</u>	<u>(364)</u>	<u>157,444</u>

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

5 Loans and advances (continued)

5(e) Impaired loans and advances provision coverage

	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
Aggregate impaired loans	509,632	516,509
Provision held	305,377	324,110
Coverage ratio	59.92%	62.75 %

The ratio of provisions held to aggregate impaired loans ("coverage ratio") is an indicator of the Group's achievements in managing lower default rates and improving recovery rates. It does not take into account collateral available, including cash, property and other realizable assets.

6 Islamic Financing assets

6(a) Islamic Financing assets

Islamic retail financing asset	916,454	-
Total Islamic financing assets	916,454	-
Provision for impairment (Note 6(b))	(2,709)	-
	<u>913,745</u>	<u>-</u>

6(b) Analysis of Islamic financing assets

Islamic Salam Personal Finance	630,607	-
Islamic Auto Murabaha	263,557	-
Islamic Credit Cards	22,290	-
	<u>916,454</u>	<u>-</u>

The Islamic operations were launched in January 2013 and hence there are no comparatives to report.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

7 Investment securities

	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
Securities available-for-sale		
Quoted equity securities	105,092	-
Quoted debt securities	42,413	42,688
	<u>147,505</u>	<u>42,688</u>
Securities held-to-maturity		
Quoted debt securities	2,438,200	1,544,190
Total investment securities	<u><u>2,585,705</u></u>	<u><u>1,586,878</u></u>

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

	30 September 2013 AED'000	31 December 2012 AED'000
UAE	2,060,376	1,472,095
Other GCC countries	153,234	96,245
India	353,592	-
Others	18,503	18,538
	<u><u>2,585,705</u></u>	<u><u>1,586,878</u></u>

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

AED	403,766	593,096
USD	2,181,939	993,782
	<u><u>2,585,705</u></u>	<u><u>1,586,878</u></u>

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

7 Investment securities (continued)

The movement in investment securities is as follows:

	Securities available-for- sale	Securities held - to - maturity	Total
	AED'000	AED'000	AED'000
At 1 January 2013	42,688	1,544,190	1,586,878
Purchases	106,483	1,361,685	1,468,168
Disposals* / Maturities	(20,617)	(458,199)	(478,816)
Net changes in fair value	18,951	-	18,951
Amortisation of premium	-	(9,476)	(9,476)
At 30 September 2013 (reviewed)	<u>147,505</u>	<u>2,438,200</u>	<u>2,585,705</u>
At 1 January 2012	151,426	1,012,387	1,163,813
Purchases	-	641,073	641,073
Disposals / Maturities	(118,365)	(110,605)	(228,970)
Changes in fair value	9,456	-	9,456
Amortisation of discount	-	1,610	1,610
At 30 September 2012 (reviewed)	<u>42,517</u>	<u>1,544,465</u>	<u>1,586,982</u>

* Management undertook a review of the held to maturity bonds portfolio in April 2013 and a decision was taken to exit two bonds with carrying value of AED 165.2 million.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

8 Property and equipment

	Land and buildings AED'000	Leasehold Improvements AED'000	Other fixed assets AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2013	519,473	105,228	672,990	121,540	1,419,231
Additions	33,662	804	17,979	57,164	109,609
Transfers	30,787	12,169	60,021	(102,977)	-
Disposals	(225)	(1,870)	(1,955)	-	(4,050)
At 30 September 2013	583,697	116,331	749,035	75,727	1,524,790
Depreciation					
At 1 January 2013	48,074	59,425	275,959	-	383,458
Charge for the period	13,287	11,065	69,001	-	93,353
Disposals	(160)	(1,870)	(1,936)	-	(3,966)
At 30 September 2013	61,201	68,620	343,024	-	472,845
Net book amount					
At 30 September 2013 (reviewed)	522,496	47,711	406,011	75,727	1,051,945
At 31 December 2012 (audited)	471,399	45,803	397,031	121,540	1,035,773

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

8 Property and equipment (continued)

	Land and buildings AED'000	Leasehold improvements AED'000	Other fixed assets AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2012	503,297	94,339	368,612	271,677	1,237,925
Additions	9,363	463	11,449	125,393	146,668
Transfers	6,813	4,390	267,791	(278,994)	-
Disposals	-	(1,063)	(1,046)	-	(2,109)
At 30 September 2012	519,473	98,129	646,806	118,076	1,382,484
Depreciation					
At 1 January 2012	32,065	47,108	206,585	-	285,758
Charge for the period	11,921	9,862	48,601	-	70,384
Disposals	-	(813)	(873)	-	(1,686)
At 30 September 2012	43,986	56,157	254,313	-	354,456
Net book amount					
At 30 September 2012 (reviewed)	475,487	41,972	392,493	118,076	1,028,028
At 31 December 2011 (audited)	471,232	47,231	162,027	271,677	952,167

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

9 Other assets

	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
Interest receivable	170,474	164,794
Profit receivable on Islamic financing assets	9,038	-
Prepayments and deposits	62,486	61,324
Others	52,050	18,056
	<u>294,048</u>	<u>244,174</u>

10 Deposits from customers

	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
Time deposits	7,051,747	9,249,064
Current accounts	8,953,923	7,817,296
Savings deposits	3,287,546	2,749,198
Call deposits	997,463	904,167
	<u>20,290,679</u>	<u>20,719,725</u>

Time deposits include AED 266million (2012: AED 280 million) held by the Group as cash collateral for loans and advances granted to customers.

11 Islamic customer deposits

	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
Wakala deposits	561,419	-
Qard-E-Hasan -current accounts	674,813	-
Mudaraba -savings deposits	130,927	-
Mudaraba-call deposits	2,731	-
	<u>1,369,890</u>	<u>-</u>

The Islamic operations were launched in January 2013 and hence there are no comparatives to report.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

12 Other liabilities

	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
Interest payable	46,704	94,931
Profit distributable on Islamic deposits	4,681	-
Accrued expenses	146,840	175,797
Managers cheques issued	229,569	151,215
Others	153,165	117,971
	<u>580,959</u>	<u>539,914</u>

13 Share capital and dividend

At 30 September 2013, the authorised, issued and fully paid share capital of the Group comprised 1,676.25 million shares of AED 1 each (31 December 2012: 1,523.86 million shares of AED 1 each).

At the meeting of shareholders held on 24 March 2013, the shareholders of the Bank approved a stock dividend (issue of bonus shares) in respect of the year ended 31 December 2012 at 10% of the issued and paid up capital amounting to AED 152.39 million (2011: AED 138.53 million) and a cash dividend of 40% of issued and paid up capital amounting to AED 609.54 million (2011: AED 415.6 million). Accordingly, the authorised and issued share capital of the Bank was increased by the amount of stock dividend issued on 3 April 2013.

14 Other reserves

Other reserves include legal reserve and voluntary reserve. In accordance with the Articles of Association of the Group, 10% of the net profit for the year is to be transferred to a legal reserve until such time as the balance in the reserve equals 50% of the issued share capital and 10% of the net profit for the year is to be transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. No allocations to the legal reserve and the voluntary reserve have been made for the nine month period ended 30 September 2013, as these will be effected at the year end based on the Group's results for the year ending 31 December 2013. The movement in other reserves is on account of fair value gains on investment securities.

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

15 Contingencies and commitments

	30 September 2013 (reviewed) AED'000	31 December 2012 (audited) AED'000
Commitments to extend credit	6,692,234	5,980,372
Letters of guarantee	522,635	492,854
Letters of credit	52,300	111,708
Acceptances	30,843	30,702
Capital commitments	20,144	37,324
	<u>7,318,156</u>	<u>6,652,960</u>

Commitments to extend credit represent unfunded amounts out of approved limits offered to customers, which are revocable at the discretion of the Group.

16 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 Group's undelivered spot transactions.

Outstanding forward foreign exchange transactions at 30 September 2013 and 31 December 2012 are as follows:

	Contract amount AED'000	Fair value AED'000
30 September 2013 (reviewed)	<u>362,137</u>	<u>54</u>
31 December 2012 (audited)	<u>51,017</u>	<u>35</u>

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

17 Interest income and expense

	<u>Three months ended</u> <u>30 September</u> <u>(reviewed)</u>		<u>Nine months ended</u> <u>30 September</u> <u>(reviewed)</u>	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Interest income				
Commercial loans and overdrafts	332,808	335,546	982,954	968,926
Retail loans	126,603	141,991	388,045	421,511
Credit cards	154,166	153,914	457,298	462,013
Auto loans	31,701	23,108	88,878	62,790
Other banks	916	730	2,198	3,242
Deposits with the UAE Central Bank	446	604	2,335	890
Total interest income	<u>646,640</u>	<u>655,893</u>	<u>1,921,708</u>	<u>1,919,372</u>
Interest expense				
Due to customers	57,494	83,738	192,808	243,450
Subordinated debt	-	4,421	-	19,993
Borrowings from other banks	240	25	732	74
	<u>57,734</u>	<u>88,184</u>	<u>193,540</u>	<u>263,517</u>
Net interest income	<u>588,906</u>	<u>567,709</u>	<u>1,728,168</u>	<u>1,655,855</u>

18 Income from Islamic financing and distribution to depositors

Income from Islamic Financing				
Profit from Islamic personal financing	11,429	-	19,059	-
Profit from Islamic auto financing	3,802	-	5,408	-
Total income from Islamic Financing	<u>15,231</u>	<u>-</u>	<u>24,467</u>	<u>-</u>
Distribution to Islamic depositors	3,579	-	5,761	-
Income from Islamic financing net of distribution to depositors	<u>11,652</u>	<u>-</u>	<u>18,706</u>	<u>-</u>

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

19 Net fees and commission income

	<u>Three months ended</u> <u>30 September</u> <u>(reviewed)</u>		<u>Nine months ended</u> <u>30 September</u> <u>(reviewed)</u>	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Credit cards	42,658	46,141	131,763	142,313
Commercial loans	19,960	17,563	58,490	54,427
Retail loans	5,783	3,694	12,820	10,134
Mortgage loans	7,182	6,372	22,340	18,011
Auto loans	9,875	5,049	22,970	13,033
Trade finance	4,192	2,612	11,369	9,541
Fiduciary income	16,841	20,343	56,759	52,650
Others	26,141	20,975	81,757	63,553
	<u>132,632</u>	<u>122,749</u>	<u>398,268</u>	<u>363,662</u>

20 Investment income

	<u>Three months ended</u> <u>30 September</u> <u>(reviewed)</u>		<u>Nine months ended</u> <u>30 September</u> <u>(reviewed)</u>	
	2013 AED'000	2012 AED'000	2013 AED'000	2012 AED'000
Net interest income from bonds	27,365	18,450	81,052	55,153
Profit/ (loss) on sale	-	-	13,014	(1,515)
Dividend income	-	-	6,322	-
	<u>27,365</u>	<u>18,450</u>	<u>100,388</u>	<u>53,638</u>

21 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares during the period ended 30 September 2013 amounted to 1,676,245,428 shares (30 September 2012: 1,676,245,428 shares).

22 Fiduciary activities

The Group holds assets in a fiduciary capacity for its customers without recourse to itself. At 30 September 2013, such assets amounted to AED 1,612.51 million (31 December 2012: AED 1,109.14 million) and are excluded from the condensed consolidated interim financial information of the Group.

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

23 Cash and cash equivalents

	At 30 September	
	2013	2012
	(reviewed)	(reviewed)
	AED'000	AED'000
Cash in hand and current account with the UAE Central Bank (Note 3)	511,947	456,999
Due from other banks (Note 4)	660,330	737,635
	<u>1,172,277</u>	<u>1,194,634</u>
Less: Due from other banks with original maturity of 3 months or more	-	(261,462)
	<u>1,172,277</u>	<u>933,172</u>

24 Operating segments

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

The Group has three main business segments:

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

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

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

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

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

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

24 Operating segments (continued)

The segment information provided to the Executive Committee for the reportable segments for the period ended 30 September 2013 and 30 September 2012 is as follows:

	Retail Banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Unallocated Cost AED'000	Total AED'000
30 September 2013					
Net external interest income	1,753,790	(12,282)	(13,340)	-	1,728,168
Income from Islamic financing net of distribution to depositors	19,907	(1,201)	-	-	18,706
Transfer pricing income / expense	(53,551)	36,234	17,317	-	-
Net Interest / Income from Islamic financing	1,720,146	22,751	3,977	-	1,746,874
Non interest income	411,437	49,157	127,236	-	587,830
Operating income	2,131,583	71,908	131,213	-	2,334,704
Operating expense excluding depreciation	(660,250)	(58,825)	(3,751)	(198,010)	(920,836)
Depreciation	(40,943)	(1,495)	(45)	(50,870)	(93,353)
Total Operating expense	(701,193)	(60,320)	(3,796)	(248,880)	(1,014,189)
Impairment charge net of write off / recovery	(183,417)	330	-	-	(183,087)
Net profit / (loss)	1,246,973	11,918	127,417	(248,880)	1,137,428
Segment assets	21,761,980	786,561	5,087,571	-	27,636,112
Unallocated assets	-	-	-	1,228,983	1,228,983
Total assets	21,761,980	786,561	5,087,571	1,228,983	28,865,095
Segment liabilities	12,885,007	7,895,178	1,381,369	-	22,161,554
Unallocated liabilities	-	-	-	461,490	461,490
Total liabilities	12,885,007	7,895,178	1,381,369	461,490	22,623,044

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

24 Operating segments (continued)

	Retail banking AED'000	Corporate banking AED'000	Treasury and others AED'000	Unallocated cost AED'000	Total AED'000
30 September 2012					
Net external interest income	1,731,735	(43,691)	(32,189)	-	1,655,855
Income from Islamic financing net of distribution to depositors	(82,365)	52,280	30,085	-	-
Interest income / expense from other segments					
Net Interest income	1,649,370	8,589	(2,104)	-	1,655,855
Non interest income	382,875	27,598	79,192	-	489,665
Operating income	2,032,245	36,187	77,088	-	2,145,520
Operating expense excluding depreciation	(637,143)	(51,263)	(3,961)	(187,164)	(879,531)
Depreciation	(38,228)	(1,494)	(61)	(30,601)	(70,384)
Total Operating expense	(675,371)	(52,757)	(4,022)	(217,765)	(949,915)
Impairment charge net of (recovery) / write off	(157,808)	364	-	-	(157,444)
Net profit / (loss)	1,199,066	(16,206)	73,066	(217,765)	1,038,161
Segment assets	20,391,115	395,748	4,607,372	-	25,394,235
Unallocated assets	-	-	-	1,096,289	1,096,289
Total assets	20,391,115	395,748	4,607,372	1,096,289	26,490,524
Segment liabilities	12,724,117	6,938,245	1,074,453	-	20,736,815
Unallocated liabilities	-	-	-	423,303	423,303
Total liabilities	12,724,117	6,938,245	1,074,453	423,303	21,160,118

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

25 Related parties balances

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

	<u>Nine months ended 30</u>	
	<u>September</u>	
	2013	2012
	(reviewed)	(reviewed)
	AED'000	AED'000
Transactions during the period		
Interest income	739	1,031
Interest expense	8,633	13,869
Commission income	487	396
Directors' remuneration	4,067	4,409
Remuneration payable to key management Personnel	16,798	15,159
		31
	30 September	December
	2013	2012
	(reviewed)	(audited)
	AED'000	AED'000
Balances		
Loans and advances:		
- Shareholders and their related companies	33,262	107
- Directors and their related companies	252	231
- Key management personnel	18,222	20,018
	<u>51,736</u>	<u>20,356</u>
Due to customers:		
- Shareholders and their related companies	1,004,155	642,582
- Directors and their related companies	40,803	42,194
- Key management personnel	35,270	22,924
	<u>1,080,228</u>	<u>707,700</u>
Irrevocable commitments and contingent liabilities and forward contracts		
- Shareholders and their related companies	50,077	118,752
- Directors and their related companies	507	445
	<u>50,584</u>	<u>119,197</u>

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

26 Capital adequacy

Capital structure and capital adequacy as per Basel II requirement as at 30 September 2013

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

	30 September 2013 AED'000	31 December 2012 AED'000
Tier 1 capital		
Ordinary share capital	1,676,245	1,523,859
Share premium	110,350	110,350
Statutory and other reserves	2,896,848	2,877,897
Retained earnings	421,180	573,565
Total	<u>5,104,623</u>	<u>5,085,671</u>
Tier 2 capital	-	-
Total regulatory capital	<u>5,104,623</u>	<u>5,085,671</u>
Risk weighted assets		
Credit risk	18,503,643	16,951,305
Market risk	6,024	3,633
Operational risk	714,989	714,989
Total risk weighted assets	<u>19,224,656</u>	<u>17,669,927</u>
Capital adequacy ratio on regulatory capital	26.55%	28.78%
Capital adequacy ratio on Tier 1 capital	26.55%	28.78%

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

27 Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 30 September 2013, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial asset and liability:

	Fair value		Carrying value	
	30 September 2013 AED'000	31 December 2012 AED'000	30 September 2013 AED'000	31 December 2012 AED'000
Financial assets				
Investment securities	2,557,487	1,659,443	2,585,705	1,586,878

28 Fair value hierarchy

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

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

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

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

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

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

Notes to the condensed consolidated interim financial information for the nine months ended 30 September 2013 (continued)

28 Fair value hierarchy (continued)

30 September 2013	Quoted market prices Level 1 AED '000	Observable inputs Level 2 AED '000	Significant unobservable inputs Level 3 AED '000	Total AED'000
Asset at fair value				
Available for sale financial assets				
- Investment securities – debt	42,413	-	-	42,413
- Investment securities- equity	105,092	-	-	105,092
Foreign currency forwards	-	54	-	54
	<u>147,505</u>	<u>54</u>	<u>-</u>	<u>147,559</u>
31 December 2012				
Available for sale financial assets				
- Investment securities – debt	42,688	-	-	42,688
Foreign currency forwards	-	35	-	35
	<u>42,688</u>	<u>35</u>	<u>-</u>	<u>42,723</u>

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