Basel II – Pillar 3 Disclosures

(In compliance with Circular No 27/2009 dated 17th November 2009 issued by Central Bank of UAE and in conformity with Basel II Capital adequacy calculation.)

References are made to the audited financial statement as at 31st December 2011 wherever required for details only. These financial statements have been approved by the Central Bank of UAE on 14th March 2012, and subsequently confirmed by the shareholders in the Annual General Meeting held on 22nd April 2012.

These disclosures pertain to National Bank of Ras AL Khaimah P.S.C. as at 31st December 2011. The Bank does not hold any significant Investments in other entities nor does it have any operational subsidiary companies.

2. Capital Structure:

Quantitative Disclosure:

The Bank has adopted Standardised approach for calculation of credit risk and market risk. For operational risk the bank has adopted Alternative Standardised Approach (ASA)

	2011 AED'000
Tier 1 capital	
Share capital	1,385,327
Share premium account	110,350
Legal reserves	405,488
General reserves	1,271,749
Retained earnings	320,418
2011 full year profit	1,203,540
	4,696,872
Less: Proposed dividend (cash)	415,598
Tier 1 Capital after adjustment	4,281,274
Tier 2 Capital	
Subordinated debt	684,467
Total eligible capital after deduction	**4,965,741**

Subordinated debt represents the debt from the Ministry of Finance of the U.A.E as described in note no 13 of the audited financial statement.

The above capital calculation dos not take into consideration the interim profit for the year 2012.

Basel II – Pillar 3 Disclosures (continued)
as at 31st December 2011

3. Capital adequacy:

a) Qualitative Disclosure:

National Bank of Ras Al Khaimah P.S.C has adopted Standardised approach for calculation of credit risk and market risk. For operational risk the bank has adopted Alternative Standardised Approach (ASA).

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 services business. The bank's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the bank's financial performance.

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

The Asset and Liability Committee (ALCO) is chaired by the Chief Executive Officer and comprises of the heads of Personal Banking, Treasury, Credit, Corporate Banking, Finance and Risk management. It meets on a regular basis to monitor and manage the balance sheet risk.

ALCO is responsible for formalising the bank's key financial indicators and ratios, set the thresholds to manage and monitor the balance sheet 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.

The various risks that have attracted risk assets are described below:

Basel II – Pillar 3 Disclosures (continued)
as at 31st December 2011

3. Capital adequacy (continued)

a) Qualitative Disclosure (continued)

Credit risk

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

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

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

Market risk

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

Further the bank does not enter in derivative trades for speculative or hedging purposes. The only exposure to derivatives is in respect of forward exchange contracts which entered into on behalf of the bank's customers.

Basel II – Pillar 3 Disclosures (continued)
as at 31st December 2011

3. Capital adequacy (continued)

a) Qualitative Disclosure (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 commence 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.

b) Quantitative Disclosure:

	2011 AED'000
Risk Weighted Assets	
Credit risk	15,230,739
Market risk	7,761
Operational risk	608,086
Total Risk Weighted Assets	15,846,586
Total Eligible Capital	4,965,741
Total Tier 1 Capital	4,281,274
Capital adequacy ratio on eligible capital	31.34%
Capital adequacy ratio on Tier 1 capital	27.02%

Basel II – Pillar 3 Disclosures (continued)
as at 31st December 2011

4. Credit Risk Exposure

a) Past due and impaired loans with provisioning:

Past Due and Impaired loans:

Past due and impairment of loans and advances can be assessed by reference to internal grading or past due buckets.

Retail banking loans are graded into buckets according to the number of installments past due. All loans that are not in default of interest payment and installment are graded as bucket 0, while loans and advances that are in default of interest payment and installments are graded upwards from bucket 1 onwards, depending on the number of days past due. Loans and advances are classified as delinquent after 90 days of non-payment of interest and installments and provisions made as appropriate after taking into account the collateral held.

The corporate banking and SME credit matrix is used to rate corporate and SME loans under various characteristics. There are six categories of performing loans and three categories of non-performing loans. These ratings are reviewed at least once a year, or more frequently as required. The corporate loan portfolio is reviewed at least on a quarterly basis.

Specific and general provisions:

Management takes into account the historical loss experience in estimating future cash flows in assessing the loan portfolio for impairment. 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 to create specific provisions.

In addition to specific provision the bank also carries provision for risk inherent in the portfolio at the reporting period end.

Further to the above the board recommended in 2011 to create a non-distributable regulatory credit risk reserve to the extent of 1.5% of the risk assets as approved by Central Bank of UAE. These were confirmed by the shareholders in the Annual General Meeting held on 22nd April 2012. An appropriation of AED 240 Million is made towards this reserve and this reserve will be maintained at 1.5% of risk weighted assets.

Basel II – Pillar 3 Disclosures (continued)
as at 31st December 2011

4. Credit Risk Exposure (continued)

b) Gross credit exposure by currency:

At 31 December 2011 bank had the following gross exposures denominated in foreign currencies:

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
On balance sheet items				
Due from other banks	935,291	590,504	446,456	1,972,251
Loans and advances	18,549,416	136,140	20,892	18,706,448
Investment securities	685,302	478,511	-	1,163,813
Total funded	20,170,009	1,205,155	467,348	21,842,512
Off-balance sheet items				
Credit commitments	5,419,989	36,349	393	5,456,731
Guarantees, acceptances and other exposures	270,138	113,494	18,091	401,723
Total Non - Funded	5,690,127	149,843	18,484	5,858,454
Total	25,860,136	1,354,998	485,832	27,700,966

The bank has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the bank has the largest short net open position at 31 December 2011.

c) Gross credit exposure by geography:

The bank has activities only within UAE and as such there are no significant exposures outside the UAE. Exposure outside UAE is mainly in the form of Inter-bank placements, Investments amounting to AED 463M.
This amounts to roughly 2 % of the total credit exposure as at 31st December 2011.

Basel II – Pillar 3 Disclosures (continued)

as at 31st December 2011

4. Credit Risk Exposure (continued)

d) Gross credit exposure by Industry:

	On balance sheet items					
	Loans and advances	Debt securities	Due from banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2011						
Agriculture, fishing & related activities	26,179			26,179	208	26,387
Crude oil , gas, mining & quarrying					87,010	87,010
Manufacturing	179,496			179,496	162,771	342,267
Electricity & water	8,088			8,088	91	8,179
Construction	516,560			516,560	73,431	589,991
Trade	1,828,829			1,828,829	425,948	2,254,777
Transport, storage & communication	909,723	73,460		983,183	31,953	1,015,136
Financial Institutions	15,213	464,321	1,972,251	2,451,785	48,421	2,500,206
Services	340,627			340,627	145,946	486,573
Government		510,190		510,190	86,616	596,806
Retail and consumer banking	14,802,114			14,802,114	4,787,448	19,589,562
Others	159,151	115,842		274,993	8,611	283,604
Total exposures	18,785,980	1,163,813	1,972,251	21,922,044	5,858,454	27,780,498
Less: Interest in suspense	(79,532)	-	-	(79,532)	-	(79,532)
	18,706,448	1,163,813	1,972,251	21,842,512	5,858,454	27,700,966

e) Gross credit exposure by residual contractual maturity:

	< 3 months	3 months to 1 Year	1 to 5 Years	Over 5 Years	Total
		AED'000	AED'000	AED'000	AED'000
Due from Other Banks	1,972,251	-	-	-	1,972,251
Loans and advances	2,867,578	415,948	4,453,406	11,049,048	18,785,980
Investments Securities	151,426	60,246	952,141	-	1,163,813
Total Funded	4,991,255	476,194	5,405,547	11,049,048	21,922,044
Off balance sheet items	5,579,647	205,212	73,595	-	5,858,454

Basel II – Pillar 3 Disclosures (continued)
as at 31st December 2011

4. Credit Risk Exposure (continued)

f) Impaired loan by industry segment:

	Less than 90 days AED'000	**Overdue above 90 Days** AED'000	**Total** AED'000	**Specific Provision** AED'000
Agriculture, fishing & related activities	-	-	-	-
Crude oil, gas, mining & quarrying	-	-	-	-
Manufacturing	307	521	828	768
Electricity & water	-	-	-	-
Construction	616	64,411	65,027	34,933
Trade	2,978	15,916	18,894	17,332
Transport, storage & communication	313	6,331	6,644	5,999
Financial institution	-	-	-	-
Services	505	2,815	3,320	3,094
Government	-	-	-	-
Retail and consumer banking	8,166	450,769	458,935	192,203
Total impaired loans	12,885	540,763	553,648	254,329
Less: Interest in suspense			(79,532)	-
			474,116	254,329

The total impairment provision for loans and advances is AED 337.98 million of which AED 254.33 million represents provision in respect of the individually impaired loans and advances and the remaining amount of AED 83.65 million represents the portfolio provision to reflect the risk inherent in bank's loan portfolio.

g) Impaired loan by geographical distribution:

There are no exposures of impaired loans outside the UAE as at 31st December 2011.

Basel II – Pillar 3 Disclosures (continued)
as at 31st December 2011

4. Credit Risk Exposure (continued)

h) Reconciliation of Changes in provision of impaired loans:

31st December 2011	Impairment Provisions Specific	General or Portfolio
	AED'000	AED'000
Opening Balance as at 01 Jan 2011	200,294	107,600
Add: Provided during the year	1,092,165	17,000
Less: Released during the year	728,130	-
Less: Released to current year income during the period	-	40,951
Written off during the year	310,001	-
Balance as at 31 Dec 2011	**254,329**	**83,649**

بنك رأس الخيمة الوطني (ش.م.ع)
RAKBANK
THE NATIONAL BANK OF RAS AL-KHAIMAH (P.S.C.)

Basel II – Pillar 3 Disclosures (continued)
as at 31st December 2011

4. Credit Risk Exposure (continued)

i) Loan portfolio as per standardized approach:

	On balance sheet gross outstanding AED '000	Off balance sheet net exposure after credit conversion AED '000	Credit Risk Mitigation (CRM) Exposure before CRM AED '000	CRM AED '000	After CRM AED '000	Risk weighted Assets AED '000
31 December 2011						
Claims on sovereigns	1,485,227	-	1,485,227	-	1,485,227	-
Claims on PSE's	510,190	-	510,190	-	510,190	-
Claims on multi lateral development banks	-	-	-	-	-	-
Claims on banks	2,359,332	2,361	2,361,693	-	2,361,693	617,055
Claims on securities firms	-	-	-	-	-	-
Claims on corporates	511,433	308,599	820,032	101,756	718,276	718,276
Claims included in the regulatory retail portfolio	14,292,713	27,468	14,312,590	135,661	14,176,929	10,688,633
Claims secured by residential property	3,609,221	-	3,606,037	-	3,606,037	1,697,225
Claims secured by commercial real estate	-	-	-	-	-	-
Past due loans	561,916	-	238,831	-	238,831	343,710
Higher-risk categories	-	-	-	-	-	-
Other assets	1,586,598	-	1,586,598	-	1,586,598	1,165,840
Total claims	**24,916,630**	**338,428**	**24,921,198**	**237,417**	**24,683,781**	**15,230,739**

Of which :

Rated exposure		2,871,883
Unrated exposure		22,049,315

Of the above exposure AED 2,871,883 are rated exposures. These pertain to interbank placements and investments. All other exposures are unrated.

The bank has used only those ECAI's (External Credit Assessment Institutions) which are approved by the Central Bank of UAE namely S&P, Moody's, Fitch and Capital Intelligence.

Basel II – Pillar 3 Disclosures (continued)
as at 31st December 2011

7. Credit risk mitigation:

a) Qualitative disclosure:

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

The bank manages, limits and controls concentration of credit risk wherever it is identified – in particular, to individual counterparties and groups, and to industries and countries. The bank has a Product Program Guide that sets limits of exposure and lending criteria. The bank also has credit limits that set out the lending and borrowing limits to/from other banks. Further mortgage loans and auto loans, which together represent a significant portion of loans and advances, are backed by collateral.

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

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

b) Quantitative disclosure:

	Exposure	Risk Weighted Assets
	AED '000	AED '000
Gross exposure prior to Credit Risk Mitigation	24,921,198	15,435,143
Less: Exposures covered by eligible financial collateral	(237,417)	(204,404)
Net Exposures after Credit Risk Mitigation	24,683,781	15,230,739

The eligible financial collaterals above include cash and deposits.

Basel II – Pillar 3 Disclosures (continued)
as at 31st December 2011

10. Market Risk:

a) Capital requirement for Market risk under standardized approach:

	Risk weighted asset	Capital charge
	2011	2011
	AED '000	AED '000
Foreign exchange risk	7,761	931

Capital charge for year ended 31 December 2011 has been calculated at 12%

Equity risk:

The bank does not have a trading book in equity or currency or derivatives. For details of investment refer to Note number 8 of the audited financial statement.

Interest rate risk:

Interest rate risk arises due to mismatches of fixed interest rate assets and floating rate interest rate liabilities. This is monitored through the use of detailed gap report and stress testing. Refer to Note number 3.3.2 of the audited financial statement for details of Interest rate risk.

Commodity risk:

Commodity risk is not existent as the bank does not deal in commodities.

15. Operational Risk:

The bank follows Alternative Standardised Approach (ASA) for calculation of operational risk.

The bank has a formal governance structure which is established under the Risk Management Committee to provide the strategic direction, oversight and monitoring of the Operational Risk Framework of the bank.

The bank endeavours to minimise the operational risk through the framework which includes risk identification, assessment and control, Key risk indicators and operational risk self-assessments through an operational risk data base.

Calculation of Operational risk:

	Three year Average AED '000	**M Factor**	**Beta Factor**	**Capital Charge** AED '000	**RWA = Capital Charge x 8.33*** AED '000
Trading and Sales	17,831	-	18%	3,210	26,736
Commercial Banking	286,511	0.035	15%	1,504	12,530
Retail Banking	16,258,497	0.035	12%	68,286	568,820
Operational Risk					**608,086**

* Total Risk weighted assets are determined by multiplying the Capital Charge for Operational Risk by 8.33 (i.e. the reciprocal of the minimum capital ratio of 12%) and adding the resulting figures to sum the risk – weighted assets.