RAKBANK

Simply Better

2017
ANNUAL
REPORT

A SIMPLY BETTER JOURNEY

Our refreshed strategy will see us achieve long term growth and sustainable profitability, while at the same time delivering a more complete service to the customer, with whom we have embarked on a 'Simply Better' journey.

FINANCIAL HIGHLIGHTS

AED million	2015	2016	2017
Total Assets	40,587	42,510	48,537
Loans, Advances & Islamic Financing (net)	27,798	28,726	32,240
Customer Deposits	27,820	29,398	32,176
Total Equity	7,717	7,580	7,868
Net Operating Income	3,939	3,839	3,810
Net Profit Attributable	1,405	663	811

Key indicators (%)	2015	2016	2017
Cost to Income	37.5	35.6	38.0
Net Interest Margin	8.0	6.9	6.1
NPL Ratio	3.2	4.2	4.0
Loan Loss Coverage Ratio	81.4	84.3	74.6
Return on Average Equity	19.3	8.7	10.6
Capital Adequacy Ratio – Basel II*	24.4	22.3	20.3
Capital Adequacy Ratio – Basel III*	NA	NA	20.7

*Capital adequacy ratio is as per Basel 2 considering profit for the year and proposed dividend

Credit ratings	2017
Moody's	Baa1 / P-2
Fitch Ratings	BBB+ / F2
Capital Intelligence	A-/A2

2017 AT A GLANCE

TOTAL ASSETS

AED 48.5 billion

TOTAL LIABILITIES

AED 40.7 billion

TOTAL EQUITY

AED 7.8 billion

TOTAL LOANS & ADVANCES

AED 32.2 billion

INDIVIDUAL CUSTOMERS

515,000

BUSINESS CUSTOMERS

75,000

VISION, MISSION AND VALUES

Vision

To offer ‘Simply Better’ banking solutions for all our customers across the UAE.

Mission

We aim to be a leading customer-focused bank in the UAE, offering convenient access to innovative and competitive financial products across multiple channels to individuals and businesses.

His Highness Sheikh Saud Bin Saqr Al Qasimi

Member of the Supreme Council
Ruler of Ras Al Khaimah

His Highness Sheikh Khalifa Bin Zayed Al Nahyan

President of the United Arab Emirates

His Highness Sheikh Mohammed Bin Saud Bin Saqr Al Qasimi

Crown Prince of Ras Al Khaimah

TABLE OF CONTENTS

01 Bank profile

- Bank profile 10
- Chairman’s statement 13
- A ‘Simply Better’ Journey 16
- Our footprint 18

02 Strategic review

- CEO’s message 22
- Strategy and KPIs 26
- Business review 28
- Service excellence 32
- Fostering strong human capital 34
- Sustainability 36

03 Governance

- Board of Directors 40
- Executive management 42
- Committees 44
- Islamic Banking governance 46
- Risk management 47
- Directors’ Report to the Shareholders 50

04 Financial statements

- Independent auditor’s report 56
- Consolidated statement of financial position 63
- Consolidated income statement 64
- Consolidated statement of comprehensive income 65
- Consolidated statement of changes in equity 66
- Consolidated statement of cash flows 68
- Notes to the consolidated financial statements 69

05 Basel III – Pillar 3 Disclosures

- Basel III – Pillar 3 Disclosures 154

01 BANK PROFILE


9
RAKBANK
Rasha Al Shehhi

BANK PROFILE

The National Bank of Ras Al Khaimah ("RAKBANK") is one of the UAE's oldest – yet most dynamic – financial institutions. Headquartered in the Emirate of Ras Al Khaimah, it provides world class products and industry-leading customer service to individuals and businesses across the UAE. RAKBANK is a public joint stock company with shares traded on the Abu Dhabi Securities Exchange (ADX) and comprises of six subsidiaries, collectively known as "the Bank".

RAKBANK focuses on maximising shareholder and asset value by building long-term relationships with customers, employees and communities. Its culture is firmly built on transparency, accountability and service excellence.

Founded in 1976, it has since undergone a series of significant transformations. In 2001, the Group shifted its focus from exclusively corporate banking to serving individual customers and small businesses. In late 2013, it expanded its presence in the traditional SME and commercial banking segment. More recently, it re-entered corporate banking – in line with the Group's strategic plan to diversify its product offering to better serve customers' needs.

Today, RAKBANK's core business segments are Personal Banking, Business Banking, Wholesale Banking, Treasury and Insurance. It offers a wide range of services to individual and business customers across the UAE via its branches, phone banking and digital banking solutions. It also provides a range of Sharia-compliant products and services through its integrated Islamic Banking unit. In 2017, RAKBANK expanded its range of retail remittance services. These initiatives form an important part of RAKBANK's strategy for innovation and diversification.


RAKBANK
RAKelite
الخدمات المصرفية المميزة
PREMIUM BANKING

“THIS YEAR OUR STRATEGY FOCUSED ON CONSOLIDATING EFFORTS TO DELIVER A SERVICE AND PRODUCT PORTFOLIO THAT WOULD DELIVER A ‘SIMPLY BETTER’ JOURNEY FOR ALL STAKEHOLDERS.”

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors, it is my pleasure to introduce the Annual Report and Audited Financial Statements of RAKBANK ("the Bank") and its subsidiaries (collectively known as "the Group") for the year ended 31 December 2017. This was a year in which we built on the strength of our organisation to take steps towards a 'Simply Better' journey for the Bank and its customers. Efforts made to diversify our service and product offering, positioning us to weather challenges in the market, have borne fruit: we have, as a result, delivered improved performance to shareholders.

Our operating environment

While the UAE's banking sector continued to face headwinds in 2017, there was some sign of progress in the wider economy and a return to limited growth, as global oil prices improved. The SME sector, which continues to be an important area of focus for the Bank, remained under pressure – bad debt was still a major challenge for SME lenders, but to a lesser extent than in 2016.

In 2018, a range of important regulatory changes in the market will affect the banking industry. New accounting standards, in the form of IFRS 9, will impact the way banks report their financials, while the roll-out of Basel III will impose stricter rules on capitalisation. Investment in IT, technology and FinTech platforms will be instrumental in optimising cost and improving the customer experience and banks will focus heavily on the continued development of their mobile and internet banking offerings.

Our performance

Over the course of 2017, the Bank's performance continued to improve. Year-on-year profitability increased, confirming the success of our strategy in supporting income diversification, the reduction of provisions, asset growth and asset quality improvement. Net Profit for 2017 totalled AED 810.5 million, increasing by 22.3% on the previous year, while Total Income of AED 3.8 billion showed a decrease of 0.8% on 2016.

Total Assets reached AED 48.5 billion at year-end, increasing by 14.2%, with Gross Loans and Advances reaching AED 33.2 billion, growing by 11.6% on 2016. Return on Assets for the year was 1.8%, with Return on Average Equity of 10.6%, consistent with our ongoing commitment to enhancing the profitability of our operations.

Our strategy

Having restructured our core businesses in 2016, this year our strategy focused on consolidating efforts to deliver a service and product portfolio that would deliver a 'Simply Better' journey for all stakeholders. The strategy is focused on building the performance of new and improved business units, by continuing to innovate in the evolution and introduction of a more diverse range of activities. In 2017, a particularly strong emphasis was placed on the growth of our Treasury and Wholesale Banking divisions, while SME customers have remained a high priority for our Business Banking unit. These customers remain of immense importance to economic growth in the UAE, and of special importance to RAKBANK, as the country's leading SME lender. A detailed description of our strategic pathway, including an overview of our Group Key Performance Indicators, is provided later in this report.

Our sustainability model

RAKBANK's sustainability model maintained its commitment to the three core pillars of economic sustainability, social sustainability, and environmental sustainability. Highlights of the year have included a range of partnerships with the UAE's FinTech community, to promote entrepreneurship in the banking sector and encourage the support of FinTech start-ups by the country's leading financial institutions.

Other important and socially responsible tie-ups included the Bank's partnership with C3, to launch an innovative pre-paid payroll card that provides affordable payment and remittance options for low-income workers in the UAE, many of whom are 'unbanked'. Meanwhile, we have continued to work with INDIMAJ, providing employment opportunities for young UAE residents that are people of determination. Moreover, the Bank supported RAK Autism centre since its inception a few years ago. RAK Autism Centre provides rehabilitation programmes for children of determination in Ras al Khaimah and the northern Emirates and helps them in preparing for enrolment at regular schools.

Additionally, we work closely with local universities to offer attractive career opportunities for Emirati graduates on the Bank's Management Associate Programme, also known as IRTIQA. Likewise, the Bank takes the support of Higher Education as a top priority by offering Emirati students a full scholarship at American University of Ras Al Khaimah, AURAK.

Our future

Looking to 2018 and beyond, we will build on the successes of the year to maintain growth across our principal business units, while at the same time adapting and expanding our product range to exceed the expectations of our customers. We believe that their journey is our journey, and so the more holistic our offering the closer our relationship becomes. In an environment that remains challenging, we will work to enhance the efficiency of our operations – optimizing costs without compromising our capacity for growth – and to embrace the opportunities available for innovation and technological advance in the rapidly developing FinTech space.

On behalf of the Board of Directors, I would like to thank His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi, and His Highness Sheikh Saud bin Saqr Al Qasimi, Ruler of Ras Al Khaimah and Member of the Supreme Council. I would also like to express our gratitude to the Central Bank of the UAE for its support of the country's banking industry. Lastly, I would like to place on record our thanks to our shareholders, customers, management and employees for their unwavering trust and dedication to the Bank.

H.E. Mohamed Omran Alshamsi
Chairman


بنك رأس الخيمة الوطني
RAKBANK

2017

A 'SIMPLY BETTER' JOURNEY

Having reinforced our institutional strength in 2016, RAKBANK embarked upon a **'Simply Better'** journey in 2017. This refers to our **own diversification** in order to weather market headwinds and grow new business areas – as well as our efforts to improve our **customers' experience,** and their own 'journey' with the Bank.

During the year, our team worked hard to deliver improved operational efficiencies across RAKBANK's business units. While maintaining a customer-centric approach, we built on the achievements of the previous year and set the scene for continued **future growth**. We emphasised the importance of **innovation**: for both our operating model and the solutions we provide for customers. Continued efforts have been made to enhance our 'smart banking' offer, as well as a number of important FinTech tie-ups, in line with the UAE's broader economic vision.

While innovation will be a key growth driver in the future, RAKBANK remains committed to developing its human capital as a cornerstone of resilience and success in years to come. Meanwhile, the **restructuring of our core business** units in 2016 came to fruition this year. All units performed well, with stand-out achievements from Business Banking and Wholesale Banking.

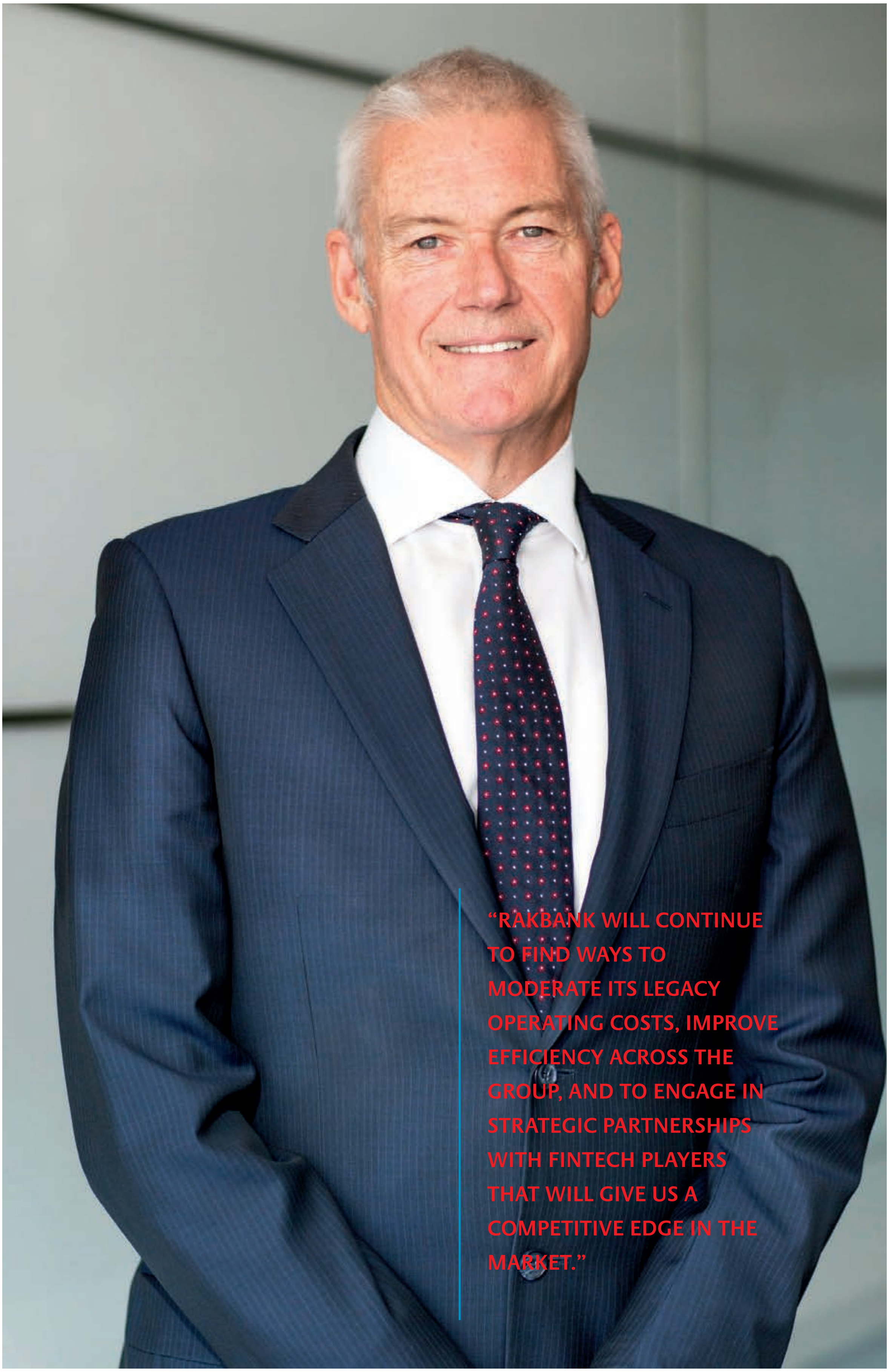
Our own journey is inextricably linked to that of the UAE. RAKBANK is proud of the role it plays in society, both through its **CSR initiatives and its programmes** for attracting, developing and nurturing talent in the local banking sector. Our **customers** remain our highest priority, since they are at the heart of our future success. We look forward to the shared journey that lies ahead, continuing to tailor and develop services that meet their specific needs.

OUR FOOTPRINT

Since inception, RAKBANK has built its presence across the United Arab Emirates. We now operate branches in six of the UAE's seven emirates, with a network of 38 branches and 289 ATMs. Our Head Office is located in Ras Al Khaimah – our home emirate – with further offices in Dubai to cater to our largest local market.

Ras Al Khaimah	8 branches 38 ATMs Head Office
Dubai	16 branches 141 ATMs Offices
Abu Dhabi	7 branches 54 ATMs
Sharjah	5 branches 41 ATMs
Fujairah	1 branch 4 ATMs
Ajman	1 branch 11 ATMs

02 STRATEGIC REVIEW



"RAKBANK WILL CONTINUE TO FIND WAYS TO MODERATE ITS LEGACY OPERATING COSTS, IMPROVE EFFICIENCY ACROSS THE GROUP, AND TO ENGAGE IN STRATEGIC PARTNERSHIPS WITH FINTECH PLAYERS THAT WILL GIVE US A COMPETITIVE EDGE IN THE MARKET."

CEO'S MESSAGE

A 'Simply Better' Journey

In 2017, the Bank's strategy evolved to take advantage of a period of diversification and restructuring. Our focus was on improving efficiencies at every level of the organisation, while sustaining a close and committed relationship with customers. Ultimately, our refreshed strategy will see us achieve long term growth and sustainable profitability, while at the same time delivering a more complete service to the customer, with whom we have embarked on a 'Simply Better' journey.

Diversification still holds the key to our success and growth. We have made great strides in consolidating the efforts of the previous year, with new or revamped business units all achieving positive results. These achievements have, in part, been driven by our emphasis on innovation, which we regard as an essential vehicle for meeting future goals. In 2017, the Bank established a dedicated Innovation function, which has already played an important role in developing and strengthening our relationship with the UAE's FinTech community. As with our customers, we have aligned our own journey with theirs: stand-out partnerships formed during the year included collaboration with the Invoice Bazaar platform and an MoU with Etisalat for managed point-of-sale services, both of which will help us to better service customers across segments.

Performance in 2017

The increase of AED 147.5 million in Net Profit was mainly due to a decrease of AED 254.7 million in provision for impairment in loans. Total Operating Income decreased by 0.8% due to the rebalancing of the loan portfolio, while Operating Expenses increased by AED 77.8 million, up by 5.7% over the previous year. Operating Expenses increased, mainly due to legal and collection expenses and staff costs.

Total Assets increased, with the most significant contributions coming from Gross Loans and Advances. Growth was realised across business segments, with Wholesale Banking lending increasing by 42.8% to AED 6.5 billion, Personal Banking lending increasing by 6.1% to AED 18.8 billion and Business Banking lending reaching AED 7.9 billion, increasing by 5.8% on 2016.

While we continued to implement measures to improve cost efficiencies across the Bank, Operating Expenses in 2017 increased by 5.7%, reaching AED 1.4 billion – this was mainly due to an increase in staff costs and collection costs. RAKBANK's Cost-to-Income ratio for the year stood at 38.0%, compared to 35.6% in 2016. In terms of asset quality and impairments, provisions for loan impairments decreased by 14.1% to AED 1.6 billion as a result of higher recoveries in Auto Loans and lower provisions in the RAKFinance and Commercial Banking book. The ratio of Non-Performing Loans (NPLs) and Advances to Gross Loans and Advances stood at 4.0% at year-end, improving by 0.2% compared to 2016. The Bank remains comfortably provisioned against loan losses, with a conservative loan loss coverage ratio of 74.6%.

After taking into consideration the profit for 2017 and after the proposed dividend, the Bank's Tier 1 ratio as per Basel II was 20.3% at year-end. This compares with 22.3% at the end of 2016. The ratio as per Basel III as at end of 2017 stands at 20.7%. We view this level of capital as providing ample room for future growth.

Human capital

The 'Simply Better' journey on which we have embarked is made possible by a dedicated and passionate team of employees across the UAE. Our staff are truly diverse, and we are proud that more than 40% are female – a major achievement in the region, and indeed the wider banking industry. We maintain the firm belief that as the Bank grows our staff must grow with it, if success is to be assured. A range of initiatives in 2017 supported that approach.

Structural changes included the introduction of new roles and positions, who will be vital for allowing RAKBANK to align itself with FinTech and technology development in the financial services sector, while ensuring a coherent strategic direction for future years. Internal engagement remains a key priority for management and HR, with the newly launched RAKBuzz portal providing an internal communications platform for staff to share news, projects, events, and lastly ideas in an open setting. At 2017's inaugural 'Happiness Workshop', hosted with the UAE Ministry of Happiness, we gave team members the opportunity to share ideas on professional growth. The Bank continues to work closely with local universities to attract Emirati graduate talent, while providing a wide range of on-the-job courses and programmes for existing team members to advance their careers.

Outlook for 2018

It's clear that the diversification strategy on which we have focused in recent years has delivered on its goals, which each of our new or enhanced business units delivering solid results in 2017. We expect those results to continue to improve during the coming year, and will set appropriately ambitious targets – without losing sight of our fundamentally conservative attitude to risk. Our aim is to continue to diversify our loan book in core areas, while at the same time diversifying income from non-interest products and services, and expanding our footprint in the Wholesale and Treasury space. RAKBANK will continue to find ways to moderate its legacy operating costs, improving efficiency across the Group, and to engage in strategic partnerships with FinTech players that will give us a competitive edge in the market.

On behalf of the Bank's executive management, I would like to thank His Highness Sheikh Saud bin Saqr Al Qasimi, Ruler of Ras Al Khaimah and Member of the Supreme Council, the Government of Ras Al Khaimah, and our Chairman – H.E. Mohamed Omran Alshamsi – for their continued support. I would also like to express my gratitude to the Board of Directors, for their wise and valuable counsel, and the Bank's staff, for their tireless efforts to realise the present and future opportunities available to us.

Peter England
Chief Executive Officer


RAKBANK

STRATEGY AND KPIs

The Bank worked hard to optimise its vertical capabilities into a more seamless and horizontal approach to delivering improvement

RAKBANK's 2017 strategic focus was a continuation of the diversification efforts into Wholesale and Treasury businesses. At the same time the SME segment, which faced a market-wide downturn, remained together with Personal Banking services at the core of RAKBANK's business focus. Significant achievements were made across all lines of business in introducing innovative solutions in order to better serve our customers.

Innovation and FinTech

In 2017, RAKBANK directly supported the UAE's broader efforts to adopt FinTech in the banking sector, and develop more digitally innovative solutions for customers. Through our standalone Innovation unit, we aim to drive cultural and institutional change to engage with the local FinTech community – and expand our range of services and products. Notable strategic tie-ups included a partnership with the Mohammed Bin Rashid Innovation Fund, which directly supports UAE FinTech start-ups, as well as a mentoring programme with Dubai International Financial Centre's FinTech Hive.

The integration of additional FinTech models into the Bank's operations will provide new opportunities for customers – for example, Samsung Pay and Apple Pay, which were rolled out in 2017. It will also optimise back-office efficiencies. The Bank's digital offering was further expanded through its agreement with the FinTech supply chain finance platform Invoice Bazaar, which has opened new channels in SME lending, as well as a Memorandum of Understanding for managed point-of-sale services with Etisalat. This is a new approach to payments in the UAE, and will help RAKBANK deliver a superior merchant acquisition platform, particularly for SME customers. Looking ahead, the Bank will continue to look to FinTech and other innovative solutions as it invests in product, service and technology enhancements. This will help us offer the fullest possible range of products and services to our customers.

RAKBANK's 2017 strategic focus was a continuation of the diversification efforts into Wholesale and Treasury businesses in order to complement our strong Personal and Business Banking offerings

Enhancing operations

RAKBANK continued to perform well, both against its strategic objectives – and a key metrics tracker that reviews each business area on a monthly basis. Important enhancements for current and future operations included improved succession planning, allowing the senior management team to identify organisational gaps, identify the actions required to close them, assess succession readiness and prepare for transitions in key roles.

Meanwhile, the Bank worked hard to optimise its vertical capabilities into a more seamless and horizontal approach to delivering improvement. This is manifested in the way RAKBANK identifies the most important 'pain processes' for customers: assigning a cross-unit team to solve the issue and deliver an end-to-end solution. This approach has been applied to areas such as customer account opening, and will be used to address other issues in 2018.

Looking ahead, RAKBANK will continue to address strategic cost levers by identifying potential partnerships and cost-efficiency measures. The Bank will work to achieve a greater level of synergy across its units, by better aligning the objectives of individual businesses with Group strategy, thereby allocating resources and prioritising projects more effectively.

Diversifying our Balance Sheet

RAKBANK's 2017 strategic focus was a continuation of the diversification efforts into Wholesale and Treasury businesses in order to complement our strong Personal and Business Banking offerings. All segments under Wholesale ranging from Corporate and Commercial to Financial Institutions witnessed solid growth by increasing their share-of-wallet with existing customers as well as extending banking services to new-to-bank institutions across the UAE.

Personal Banking, which represents the largest segment within RAKBANK, continued its thrive to put the customer at the centre of all its initiatives. Accordingly, significant achievements were made to satisfy customers across all touch points by enhancing the Bank's digital propositions and streamlining processes to ensure fast and top-notch services.

Additionally, the Business Banking Division, which serves small to medium sized businesses across sectors in the UAE, reaped the benefits of the restructuring done in the previous year. With a strong proposition around customized solutions, RAKBANK solidified its position as the leading institution serving SMEs. As an outcome, Business Banking has been able, despite adverse market conditions, to grow its franchise despite a challenging business climate.

KPIs

We measure our performance against a clearly defined set of Key Performance Indicators (KPIs), to maintain operational efficiency and continued growth – and ensure that we meet our most important objectives.

FINANCIAL	OPERATIONAL	SERVICE EXCELLENCE	SUSTAINABILITY
Net Profit	Cost Optimisation	Frequency of solicited feedback	Responsible lending
Total Income	Technology development and digital solutions take-up	Geographic and digital presence (UAE)	Corporate philanthropy
Operating Profit Before Provisions for Impairment	Teller transactions	Average turnaround time (TAT)	Community support
Operating Expenditure	Efficiency ratios	Benchmarking results	Ethical employment
Provisions for Impairment			Environmental sustainability
Gross Loans and Advances			
Deposits			
Total Assets			

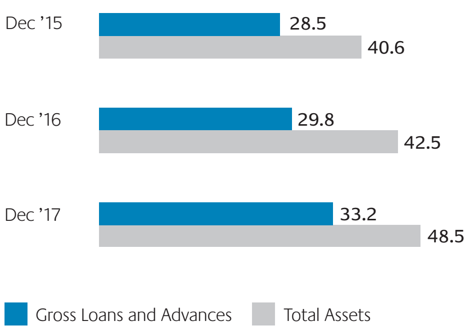
BUSINESS REVIEW

This review provides a high-level analysis of RAKBANK's performance in 2017, along with a summary of the activities and performance of each of the Bank's business units, including Personal Banking, Business Banking, Wholesale Banking, Treasury, Insurance, and Islamic Banking.

Group performance

For the year ended 31 December 2017, RAKBANK recorded AED 810.5 million in Consolidated Net Profit, representing an increase of 22.3% on 2016. Total Operating Income decreased by 0.8% compared to the previous year. Operating Expenses increased by 5.7% with the cost to income ratio at 38.0%.

Assets and Gross Loans & Advances (AED billion)



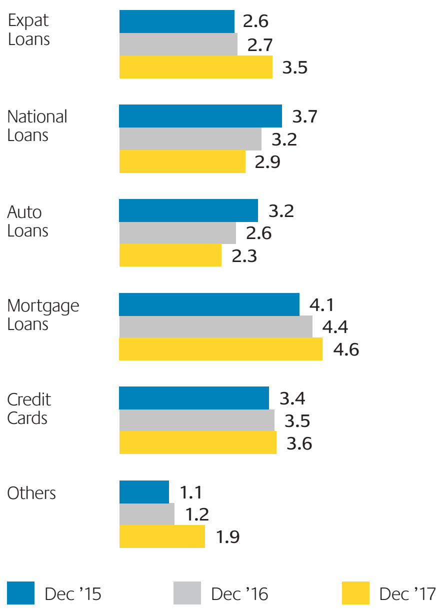
RAKBANK recorded AED 810.5 million in Consolidated Net Profit, representing an increase of 22.3% on 2016

Consolidated Operating Profit before Provisions for Impairment declined by 4.3% to AED 2.4 billion, with Gross Loans and Advances increasing by AED 3.5 billion, with strongest growth recognised by the Wholesale Banking and Retail Banking portfolios. Deposits for the year were AED 32.2 billion, increasing by 9.4% on 2016. Total Assets reached AED 48.5 billion, having increased by 14.2% on the previous year.

Personal Banking

RAKBANK's Personal Banking business serves more than 515,000 individual customers across the UAE, through a network of 38 branches and 289 ATMs. Phone and digital banking platforms offer a more convenient alternative to visiting a branch. Personal Banking's income streams are both fee-based and interest-based through asset and liability products, bancassurance sales, investment products and foreign exchange services as well as debit, credit and prepaid cards. RAKelite, the Bank's Wealth Management offering, which was launched in 2015, is also part of the Personal Banking business.

Total Loans & Advances - Personal Banking (AED billion)



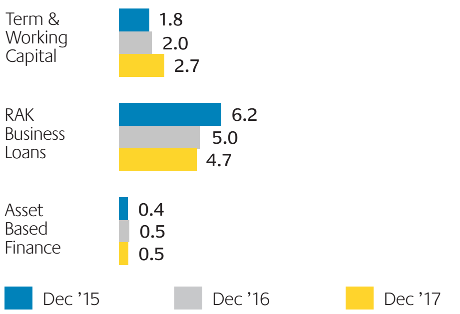
Highlights of 2017 included the launch of an innovative pre-paid payroll card, developed in partnership with C3, to provide affordable payment and remittance options for low-income workers. Furthermore, the Bank extended the RAKselect service to a wider customer segment by offering them access to a more customised banking experience with new benefits and privileges, and launched Payroll & RAKmore to enhance RAKBANK's Salary Transfer proposition. Additionally, RAKMoneyTransfer, the remittance service launched in 2016, experienced dramatic growth in transaction volume. New corridors were opened to Sri Lanka, Nepal and the Philippines, with the service named 'Best Remittance Product of the Year' at the Asian Banker 2017 Middle East Awards.

Other key initiatives included the launch of Samsung Pay and Apple Pay, enabling customers to make convenient and secure contactless payments from Samsung and Apple smartphones, as well as cardless ATM withdrawals – a first of its kind facility the UAE.

Business Banking

The standalone Business Banking segment was launched in 2016, with the aim of providing a more holistic and tailored service to SME clients. Since then, the unit has gone from strength to strength. RAKBANK remains the UAE's largest SME lender – and is committed to the growth of the sector following a period of sustained adverse market conditions. In 2017, Business Banking accounted for 33.0% of Operating Income (AED 1.3 billion), and 16.0% (AED 7.8 billion) of the Bank's Total Assets. Business Banking's loan book totalled AED 7.9 billion, increasing by 5.8% on 2016.

Total Loans & Advances – Business Banking (AED billion)



Having stabilised the Business Banking portfolio in 2016, the unit maintained its diversification strategy by growing its offering in Trade Finance, Asset Based Finance, and secured Real Estate lending. New products introduced in 2016 continued to perform well during the year, with increases in fee income – particularly from remittance and FX services – helping to diversify revenues away from purely interest-driven products. With an increasingly stable and diverse mix of assets, Business Banking achieved its target of 8.4%, a moderate growth in Net Profit.

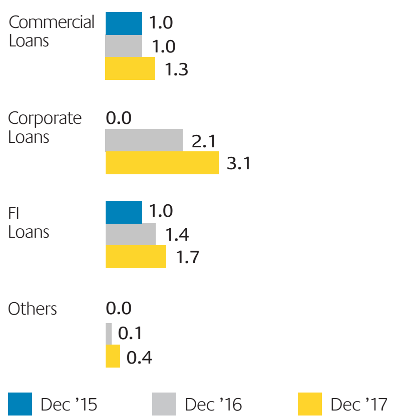
A theme-based and segmented approach to client coverage means that every business has a dedicated Relationship Manager (RM) or a Tele RM, who can meet their unique requirements and thereby enhance their journey with the Bank. In 2018, Business Banking will continue to grow and diversify its product portfolio to improve non-interest income and exploit fee-based opportunities. It will also train and develop RMs to become 'SME Advisors', as opposed to sales agents. In 2017, RAKBANK was named 'Best SME Bank UAE' by Banker Middle East.

> RAKBANK remains the UAE's largest SME lender – and is committed to the growth of the sector

Wholesale Banking

The Wholesale Banking business was established to increase RAKBANK's penetration into large businesses and government-related entities, with a focus on Corporate and Commercial lending, Trade Sales, Financial Institutions Lending and Asset Based Finance. Wholesale Banking's contribution to Operating Income in 2017 was 5.1% (AED 194 million), with the unit covering 18.3% of Total Assets. Loans grew by 42.8% on 2016, reaching AED 6.5 billion. Of these, 33.4% were Commercial Loans, 22.6% were Financial Institutions Loans and 45.2% were Corporate Loans.

Total Loans & Advances – Wholesale Banking (AED billion)



Wholesale Banking continued to strengthen its relationships with global financial institutions in markets including East Africa, South East Asia, South Asia and the Levant

On the Commercial side, highlights included changes in leadership to refresh available skill-sets for specific transactions, while a greater emphasis was placed on secured structures such as Real Estate-backed lending. Positive results from this more conservative approach have already been realised, and will be sustained as the Wholesale Banking book grows. In terms of Corporate lending, the business expanded its reach to cover a wider range of geographies and lending types, with major deals completed for sectors including Aviation, Real Estate and Free-Zone developments.

Wholesale Banking continued to strengthen its relationships with global financial institutions in markets including East Africa, South East Asia, South Asia and the Levant. Looking ahead to 2018, the business will continue to grow in these core areas, while expanding its transaction banking and cash management offering to drive non-interest income. Wholesale remains an important pillar of RAKBANK's future strategy, particularly in terms of balancing a previously retail- and SME-focused portfolio of products and services.

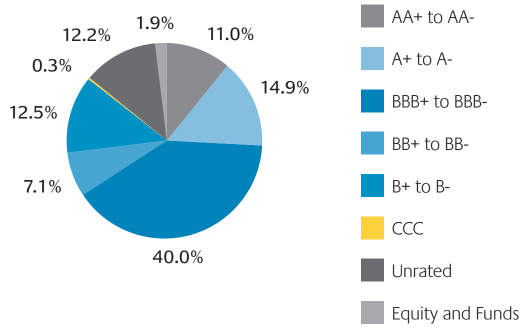
Treasury

Investment in the Treasury business continued to yield positive results with contribution to the Bank's Net Profit growing in 2017. The Foreign Exchange and Derivative income grew from AED 107.2 million to AED 131.2 million, a growth of 22.5%. The Investment portfolio grew by 15.8% to AED 5.6 billion. The composition of the portfolio is given below.

Diversification of Treasury products continued throughout 2017 and was the main reason for the sustained outperformance of the business

Diversification of Treasury products continued throughout 2017 and was the main reason for the sustained outperformance of the business. In addition to the traditional activities of Balance Sheet Management and own Account Trading the unit focused on a cross-selling strategy with the other business divisions to enhance fee income earned by the Bank from both vanilla products as well as structured hedging solutions, across all asset classes.

Analysis of Investment Securities (As at Dec '17)



Treasury played an important role in diversifying and growing the Bank's liability base. In July, the Bank closed a private placement deal of USD 50 million under its EMTN programme for a 4-year tenor which was arranged by First Abu Dhabi Bank. This was followed up by a maiden syndicated term loan facility for USD 350 million for 3 years, which was settled in October. This transaction was arranged by Bank ABC, First Abu Dhabi Bank and Standard Chartered, and was for general funding purposes. The issue was launched in August for USD 250 million, and was later upsized as it was very well received by the market and oversubscribed on the back of strong participation from 22 regional and international banks.

Looking ahead, Treasury will continue to innovate and develop new products to cater to the requirements of its growing and diverse customer base. One of the key initiatives for 2018 is going to be the launch of RAKGOLD, making the Bank a fully-fledged bullion bank, covering the entire value chain in precious metals.

Insurance

RAKBANK owns a 79.23% controlling stake in RAK Insurance, acquired in 2015. This sector exhibits strong growth potential and modest risk, since regulation in the UAE has made certain insurance products compulsory for the country's growing expatriate population. Further demand for insurance products is driven by an expanding middle class demographic. RAKBANK and RAK Insurance work closely together to develop and market health and general insurance products; these will continue to enhance our value proposition to customers, diversify our revenue streams and increase our share of the financial services market.

Islamic Banking – RAKislamic

In the face of a challenging operating environment, the focus of the Islamic Banking division was to diversify its product and service offering by applying innovative ideas and approaches to new product propositions that aims to enhance existing products, drive revenue growth, improve the customer journey and increase client acquisition and income generation. The business was successful in conceptualizing, developing and implementing new initiatives for the Islamic Retail, Business and Wholesale Banking segments, which in 2017 included a ground-breaking new deposit product called 'Fawrun' for the SME segments. This product was well received and boosted the Islamic deposits portfolio. The division also introduced long-term finance and overdraft facilities for Business and Wholesale customers. These products were received positively by the market.

The Islamic Banking Division is fully aligned with the main strategy of the Bank, which includes diversification into new areas as well as enhancements to existing products and services. Of the UAE's Islamic banking windows, RAKislamic ranks among the top 5, with the aim of ranking among the top 3 in the near future. A further strategic aim of the unit is to explore new areas of business and potential partnerships with Government entities through innovative propositions, in support of the country's wider economic vision.

SERVICE EXCELLENCE

These initiatives give our customers confidence that their interests are our highest priority

With its mission of providing a 'Simply Better' customer journey across its various products and services, RAKBANK regularly works on new initiatives to maintain its reputation for exceeding customers' expectations. These initiatives give our customers confidence that their interests are our highest priority, and provide a vehicle for us to serve our most important stakeholders to the very best of our ability. In 2017, we continued to focus on our principal Service Excellence objectives of 2016: to improve complaints handling, engage more fully and effectively with customers, and to differentiate ourselves from our peers.

Engaging with customers

Capturing Voice of Customers (VOCs) remains instrumental to RAKBANK, so that it can enhance its services, channels and products. In 2017, we focused on increasing the frequency and structure in which we capture VOCs. With over 75,000 interactions with customers in 2017, through our Customer Engagement team, we established monthly activity to capture VOCs across all our front-end channels. We now have a consistent measurement tool that provides trends and captures KPIs including Customer Satisfaction Scores (CSS), Net Promoter Scores (NPS) and Net Easy Score (NES) on a monthly basis. This management tool is used to gauge the strength of our customer relationships, delivering analysis of both experience and the feedback provided to us.

Besides the Bank's partnership with Ethos Consulting – with whom we scored 91%, 92%, and 94% across our Branch, Phone Banking, and Website services in 2017, RAKBANK also partnered with Dubai Department of Economic Development, with whom we scored 90% for Branches in 2017.

Our Dubai branches installed the Dubai Government's 'Happiness Meters'. This allows customers to quickly and easily share their opinion on the services they receive. It represents our first 'real time' customer feedback tool, and those who are 'unhappy' are contacted within 1 working day – their concerns are then addressed and shared with branches for immediate resolution.

Customer complaints management

In 2017, we focused on increasing the transparency and record of complaints, which resulted in capturing more complaints. However, we have also focused on maintaining an overall Turn Around Time (TAT) at 3.7 days, which is the actual time taken to complete a process or a request that was raised by a customer. This is below our committed target of 4 working days. In 2018, we aim to increase the percentage of cases closed within 4 days from 62% (2017) to 75% (2018). As a result of increasing the transparency of complaints in records, we have been able to resolve underlying causes.

The Central Bank of UAE, in partnership with the UAE Banking Federation (UBF), issued a circular in December 2017, following various discussions with banks including RAKBANK about the structure of complaints handling in the UAE banking sector. We are proud to say that RAKBANK's structure was largely aligned with the structure that was created. As a result of the 'Customer Promise' created by UBF, we have created a 'Customer Charter'. In 2018, this will be made available online, on ATM screens and in branches.

A culture of excellence

The Service Excellence Unit (SEU) has introduced two new forums: 'SEU Governance' and 'Empowerment', which are focused on fixing customer pain points through quick wins and empowering customer-facing staff. To achieve this, customer service team members were invited to identify areas for improvement and opportunities for closing gaps. This encourages a 'can do' attitude, and engages staff in the Service Excellence process. It has been agreed that we will create a Bank-wide forum that is focused on creating 'First Point Resolutions' across customer-facing channels of the Bank.

In 2017, RAKBANK hosted its inaugural CX (Customer Experience) Day in partnership with the Dubai Economic Department (DED): the first such event to be held in the

UAE. At the event, SEU presented best practices followed at RAKBANK, alongside CX experts from the region.

Awards and certification

During the year, we participated in the Dubai Service Excellence Scheme (DSES), in which we ranked number two for mystery shopping in the third quarter of 2017. We were also nominated for the Service Olympian Gulf Customer Experience Awards, which assessed employee performance and evaluated us against local peers and international industry best practice. RAKBANK won 'Best Overall Website' for the second year in a row, as well as 'Best Web Chat Tool' and 'Best Mobile Banking Application'. In 2017, we reached the third year in the recertification cycle for ISO9001, covering our branches and contact centres, successfully achieving verification against the international quality standard.

Throughout 2017, RAKBANK focused on applying for the Dubai Quality Appreciation Award (DQAA), which played an important part in shaping our Service Excellence policies. The application process comprised submission of a comprehensive document that outlined the Bank's customer service culture and programme – including highlights, structures, improvements and a roadmap, covering all business units. In 2018, our efforts will focus on the areas of improvement identified by the DQAA application; these will play a key role in influencing the Bank's service excellence targets and KPIs. Customer service performance indicators will be fixed and set across business units, better unifying our objectives, and tying them directly to the Bank's broader strategy.

Customer service performance indicators will be fixed and set across business units, better unifying our objectives

FOSTERING STRONG HUMAN CAPITAL

> In 2017, our focus on engagement was supported by the RAKBuzz portal – an internal social media platform

Our 'Simply Better' journey is inextricably linked to the journey on which our employees are embarked. As the Bank grows, our staff grow with it. Out of the total number of staff employed by the Bank, 44% are female: a strong ratio in the overall context of the UAE's financial services sector.

We are more engaged with our staff than ever before, allowing us to understand and meet their needs. In 2017, our focus on engagement was supported by the RAKBuzz portal – an internal social media platform enabling employees to share their engagement plans and activities as well as ideas, opinions, and successes in an open forum – and at our inaugural Happiness Workshop, in partnership with the Ministry of Happiness, which provided a channel for open communication and the sharing of ideas for non-financial incentivisation.

A range of key achievements were delivered in 2017, and these will have a positive impact for both the Bank and its employees in the years ahead.

Structural enhancements

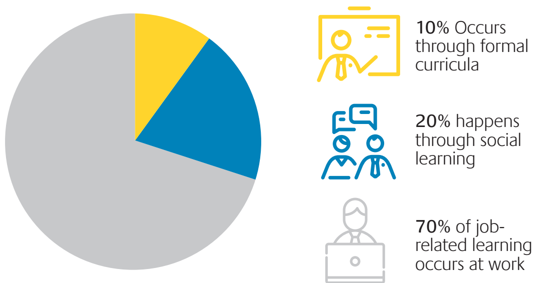
With the aim of strengthening the risk function, several important new roles were constructed in 2017. The position of Chief Risk Officer (CRO) was created and the roles of Chief Innovation Officer and Director of Strategy were also introduced, enabling the Bank to improve its alignment with FinTech and other technology-related developments in the banking sector – and concentrate its efforts on a coherent strategic direction for the future.

Performance management

A clearly structured balance scorecard was introduced by the leadership to assess the performance of senior executives and support their development by strengthening their contribution to business goals. At the same time, a new online performance management system was introduced across the Bank, providing the opportunity for all staff to align their own individual performance and development goals with RAKBANK's strategy, mission and values.

Learning and development

RAKBANK's Learning and Development department works in partnership with business divisions to identify and deliver appropriate learning and development interventions, which focus on developing employee capability. A learning needs analysis process is used to ensure that identified employee capability gaps (required development) are aligned to divisional business plans. Training is then delivered either internally or through collaboration with external vendors. A refreshed range of learning and development programmes are now offered by the internally run RAKacademy. Programmes are typically categorised as mandatory, regulatory, new entrant on-boarding, skill enhancement and technical training, with the delivery method aligned to the recognised international best practice 70:20:10 learning model (see diagram below).



In 2017, the Bank offered more than 100 external classroom courses in association with Emirates Institute of Banking and Financial Studies (EIBFS). These covered a wide range of topics: from Risk Management and Compliance to Credit Management, Corporate and Project Finance and Customer Service. Employees accessed all of the courses and programmes via the RAKacademy portal.

RAKBANK also partnered with Banker's Academy, a leading global provider of training for the financial services industry. Through the Academy, employees have access to 12 Management and Leadership courses, 11 Business Impact courses, 7 Skill and Professional Courses, and access to a suite of over 250 two- to three-minute micro-learning video clips.

Supporting Emirati talent

RAKBANK's growth is closely linked to the social and economic development of the UAE; the Bank therefore has a firm commitment to nurturing and developing local talent within the banking industry. In 2017, we were pleased to participate in the UAE's Government Accelerator Programme, an initiative of the Ministry of Human Resources & Emiratisation (MoHRE) which encourages the employment of UAE nationals in the financial services sector. The programme was a success, meeting all its stated objectives, and gave RAKBANK the opportunity to offer jobs to talented young Emiratis seeking careers in banking.

2017 also saw our IRTIQA programme members, who are young Emirati Management Associates, successfully complete their first year and they are now well on their way to graduate to junior management positions on completion of the programme in 2018. In the community, we maintained our support of young Emiratis in local universities and colleges, with a more focused approach for future banking graduates. This involved providing direct career advice and placement opportunities, as well as scholarships and bursaries, which we offer through the American University of Ras Al Khaimah.

The Bank therefore has a firm commitment to nurturing and developing local talent within the banking industry

Looking ahead

In 2018, RAKBANK will maintain its commitment to developing its people in a way that empowers them personally and enhances the Bank's performance and growth. We will also continue to attract and nurture the best banking talent in the UAE. Our ongoing engagement initiatives are vital to creating an environment where our people will flourish in the years to come.

SUSTAINABILITY

RAKBANK's sustainability model is based on three core pillars:

1. Economic sustainability
2. Social sustainability
3. Environment sustainability

These are supported by five core commitments:

1. Responsible lending
2. Corporate philanthropy
3. Community support
4. Ethical employment
5. Preservation of natural resources

We know that a successful future can only be assured through the trust of our internal and external stakeholders. That trust will be earned to a large degree by our active commitment to the UAE economy, the communities in which we live and work and the natural environment around us. Our pillars and commitments therefore have a daily impact on the Bank's operations.

Contributing to the economy

Recognising the importance of the UAE's start-up community, we partnered with the Mohammed Bin Rashid Innovation Fund to support the growth of FinTech entrepreneurs who require funding for developing their business. Similar partnerships were forged with the Ministry of Finance and Emirates Development Bank, to encourage growth and funding for the FinTech sector, which will play a vital role in the future of the UAE's financial services industry, directly impacting RAKBANK and its peers.

Recognising the importance of the UAE's start-up community, we partnered with the Mohammed Bin Rashid Innovation Fund to support the growth of FinTech entrepreneurs

Our partnership with C3, with whom we developed an innovative pre-paid payroll card, will have a major impact on the UAE's 'un-banked' community, enabling low-income workers without accounts to easily and cheaply send money home. This will increase the volume of cross-border transactions and cater to a demographic that is typically overlooked by the banking industry.

The Bank hosted a series of workshops throughout the year to prepare SMEs for the introduction of VAT in 2018. We received very positive feedback on this initiative, which provided professional advice and guidance to business owners and managers who would not otherwise have access to qualified counsel.

Giving back to the community

Our most important social programme in 2017 was the continuation of our INDIMAJ initiative, which provides employment opportunities at the Bank for UAE residents that classify as people of determination. The scheme has gone from strength to strength, with an increase in enrolments in 2017 and the recruitment of participants to positions across the Bank. Our objectives for INDIMAJ were re-focused to make social challenges at work easier to handle; this has been facilitated partly through support from therapists as well as mentors within RAKBANK.

The 'We Care' initiative, introduced in our retail branches, was successful in improving the customer experience for people in wheelchairs, mothers with young children, and pregnant women. 'We Care' gives priority access to tellers and other Bank staff, making branch visits as stress-free as possible.

The Financial Literacy webpage, which we established in 2016, continued to grow. This has proved to be a valuable tool for customers with limited knowledge of banking products and how to approach them, providing a glossary of terms, descriptive articles, and explanations of financial terminology that might otherwise appear complex or confusing.

Protecting the environment

For the second year running, our employees participated in Goumbook's 'Give a Ghaf' tree-planting initiative. The programme encourages people to plant indigenous trees in the UAE, while raising awareness of water scarcity. The Bank also maintained its sponsorship of Wildlife Middle East. This programme monitors wildlife behaviour in Ras Al Khaimah and the Northern Emirates and increases understanding of the natural habitats of the country's flora and fauna. It also campaigns against the illegal ownership and domestication of wild animals – especially big cats.

In order to reduce our environmental footprint, the Bank has established guidelines across its branches and offices for waste paper recycling and water conservation. It has also eliminated the use of plastic cutlery and crockery in its catering facilities.

Looking ahead

In 2018 and beyond, we will maintain our dedication to our three sustainability pillars and the commitments that underpin them. While introducing new programmes and initiatives, particularly those that embed a culture of caring within our business activities and products, we will simultaneously expand those programmes that have been most successful. The introduction of an online CSR portal, accessible via the Bank's intranet, has already played an important role in facilitating employee participation. In 2018, we expect even more enthusiasm from within RAKBANK in support of our economy, our community and our environment.

03 GOVERNANCE


14

BOARD OF DIRECTORS

H.E. MOHAMED OMRAN ALSHAMSI, CHAIRMAN

H.E. Mohamed Omran Alshamsi has 35 years of experience with Etisalat, retiring as Chief Executive Officer and Chairman in 2012. He is currently Chairman of the Board of Directors for Ras Al Khaimah Properties Company and Chairman of the Board of Governors for the American University in Ras Al Khaimah. He is also the Chairman and Chancellor of the Higher Colleges of Technology, with status of Minister.

Committee membership: Nomination & Remuneration Committee

H.E. ENGINEER SHEIKH SALEM AL QASIMI, DIRECTOR

H.E. Sheikh Salem Al Qasimi is a member of the Executive Council of the Government of Ras Al Khaimah. He is also Chairman of the RAK Department of Civil Aviation, a member of the General Civil Aviation Authority, founder and Chairman of the UAE Fencing Federation, Member of the UAE Olympic Committee and Chairman of the Arab Fencing Council, and Chairman of Ras Al Khaimah National Travel Agency (RANTA).

Committee memberships: Nomination & Remuneration Committee, Audit Committee, Risk Committee

MR. AHMAD ABDULKARIM JULFAR, DIRECTOR

Mr. Ahmad Abdulkarim Julfar has 30 years of experience with Etisalat Group in the UAE, during which time he held various positions, the most recent being Chief Executive Officer. Mr. Ahmad has held other senior positions, such as Chairman of the Board of Directors for the Thuraya Group and Etisalat Services Holding and Deputy Chair of the GSM Association. Mr. Ahmad has a number of achievements to his name, having been awarded Telecom Leader of the Year in 2014 by the Mobile World Congress and CEO of the Year – Telecom 2013 by CEO Middle East. He holds a BSc in Civil Engineering and Computer Science from Gonzaga University and is a graduate of the Mohammed Bin Rashid Programme for Leadership Development. Currently, Mr. Ahmad is the Director General of the Community Development Authority in Dubai.

Committee memberships: Strategy Committee, Audit Committee, Risk Committee

MR. AHMED ESSA AL NAEEM, DIRECTOR

Mr. Ahmed Essa Al Naeem has 39 years of experience with the Ras Al Khaimah government. He is the former Chairman of Electricity and Water for Ras Al Khaimah's government, General Manager of RAK National Oil Company, and RAK Gas Commission. He is also a former member of the Ras Al Khaimah Municipal Council and of the Ras Al Khaimah Chamber of Commerce, Industry, and Agriculture and has held additional posts in a number of ministries. Mr Al Naeem is currently Chairman of RAK Trade Centre and Al Naeem Mall, Al Naeem City Centre, Vice Chairman of RAK Insurance, and Director of Majan Printing and RAKBANK.

Committee memberships: Board Insiders Trading Committee

MR. KANTIC DASGUPTA, DIRECTOR

Mr. Kantic Dasgupta is a highly qualified risk management professional with extensive banking experience across all aspects of Risk Management including Credit, Market and Operational Risk. Before joining RAKBANK as a Board Member, Mr. Dasgupta spent around two and a half years as Adviser and Consultant on Risk to Abu Dhabi Islamic Bank, a role that included the oversight of strategic issues and where he was the Chairman of the Governance and Risk Policy Committee. Mr. Dasgupta came to the UAE in 2007 following his appointment as CRO for Mashreq Bank. Prior to that, he spent a long and successful career with Citibank spanning multiple geographies and a variety of senior roles in Risk Management.

Committee memberships: Risk Committee, Credit Committee

MR. RAJAN KHETARPAL, DIRECTOR

Mr. Rajan Khetarpal has 36 years of banking experience with Indian and UAE Banks in Corporate and Commercial Banking, Project Finance, Debt Capital Markets, and Risk Management. Mr. Khetarpal was Deputy General Manager and Head Global Debt Capital Markets in Emirates NBD and later the bank's General Manager of Risk. Mr. Khetarpal was also the Chief Integration Officer and CEO Designate for Emirates NBD Egypt.

Committee memberships: Credit Committee, Strategy Committee, Board Insiders Trading Committee

MR. SALEM ALI AL SHARHAN, DIRECTOR

Mr. Salem Al Sharhan spent 23 years at Etisalat in various positions and is the telecom company's former Group Chief Financial Officer. He has served as an advisor to His Highness Sheikh Saud bin Saqr Al Qasimi, Member of the Supreme Council and Ruler of Ras Al Khaimah. Mr. Salem is currently a Board Member of the Dubai International Financial Centre Authority, a Board Member of Trustees of American University of Ras Al Khaimah, and the Chairman of RAK Insurance.

Committee memberships: Credit Committee, Strategy Committee, Audit Committee

EXECUTIVE MANAGEMENT

L-R:

Peter England
Chief Executive Officer

Susan Gardner
Director, Group Human Resources

Vikas Suri
Managing Director, Treasury

L-R:

Saleh Ali Saleh
Director, RAK Business

Frederick de Melker
Managing Director, Personal Banking

Dhiraj Kunwar
Managing Director, Business Banking

L-R:

Mahadevan Radhakanthan
Chief Credit Officer

Abdul Karim Juma
Director, Islamic Banking

Geoffrey Stecyk
Chief Operating Officer

L-R:

Deepak Majithia
Chief Financial Officer

Rahul Oberoi
Managing Director, Wholesale Banking

K.S. Ramakrishnan
Chief Risk Officer

COMMITTEES

Board Committees

The Board of Directors regularly reviews the Bank's financial performance, as well as that of individual business areas. The Board's committee agenda typically includes:

- Strategy and risk management, market trends and developments, and new business opportunities
- Implications of developments in international sanctions, compliance and Central Bank regulations
- Enhancements in governance structures and processes

Committee	Description	Minimum frequency	Meetings held	Members
Credit Committee	Provides oversight of the risk management framework for controlling credit risk arising from the businesses undertaken by the Bank's units; reviews Credit Policies and Product Programmes that govern the Credit portfolios, and approves credit facilities in accordance with the laid down credit authority; reviews and approves Credit grading methodology for the Bank.	Weekly	35 meetings held	Salem Ali Al Sharhan (Chairman)
				Rajan Khetarpal
				Kantic Dasgupta
Strategy Committee	Reviews the developments and trends shaping the future of the industry to align the Bank's strategy and positioning accordingly and reviews the Bank's three-year strategic plan. Reviews and approves strategic proposals relating to the expansion of the business in terms of organic growth and/or acquisitions, distribution, and new lines of business.	Quarterly	5 meetings held	Ahmad Abdul Karim Julfar (Chairman)
				Salem Ali Al Sharhan
				Rajan Khetarpal
Nomination & Remuneration Committee	Reviews the structure, size, composition, and performance of the Bank's Board; develops and sets the Bank's remuneration framework covering the Board members, CEO, management and staff; Reviews and approves the Bank's policy on staff grading and the remuneration structure.	Half yearly	2 meetings held	H.E. Mohamed Omran Alshamsi (Chairman)
				H.E. Sh. Salem bin Sultan Al Qasimi

Committee	Description	Minimum frequency	Meetings held	Members
Audit Committee	Oversees, monitors and reviews financial statements and accounting policies, functioning of internal audit, and the relationship with external auditors for the Bank and its subsidiary companies; Receives and reviews regulatory inspection reports from UAE Central Bank and such other regulators.	Quarterly	8 meetings held	H.E. Sh. Salem bin Sultan Al Qasimi (Chairman) Salem Ali Al Sharhan Ahmad Abdul Karim Julfar
Risk Committee	Oversees the Bank's risk management framework specifically relating to Market Risk, Liquidity Risk, Credit Portfolio Risk, Operational Risk, Compliance and Internal Control, IT and Information Security and Legal Risks including the significant policies and practices used in managing these risks for the Bank and its subsidiaries.	Quarterly	4 meetings held	H.E. Sh. Salem bin Sultan Al Qasimi (Chairman) Ahmad Abdul Karim Julfar Kantic Dasgupta
Board Insider Trading Committee	Assists the Board of Directors in prohibiting insider trading and setting measures to maintain the confidentiality of the Bank's information and data, in addition to overseeing the maintenance of the insiders register and submission of periodic statements and reports to the market.	Yearly	1 meeting held	Rajan Khetarpal Ahmed Essa Al Naeem

Executive Management Committees

The Bank runs five Executive Management Committees, attended by the Chief Executive Officer along with relevant business and departmental heads. All Executive Management Committees sit monthly, with the exception of the Business Continuity Management (BCM) Committee, which sits on a quarterly basis.

Management Committee
Management Assets & Liabilities Committee
Management Executive Committee
Management Risk Committee
Information Technology Steering Committee
Management Credit Committee

ISLAMIC BANKING GOVERNANCE

RAKislamic (the Islamic window of RAKBANK) is an independently managed business unit. RAKislamic offers a complete range of Sharia-compliant financial solutions to Personal, Business and Wholesale Banking customers. The unit is regulated by the Central Bank of the UAE and supervised by an independent Fatwa and Sharia Supervisory Board (FSSB). The Bank has undertaken a range of measures to continually enhance governance of its Islamic business and to ensure complete Sharia compliance.

RAKislamic offers a complete range of Sharia-compliant financial solutions to Personal, Business and Wholesale Banking customers

All Islamic asset and liability products, including credit cards, are offered through the Islamic Banking platform. Sharia governance is carried out under the guidance of the three-member FSSB, which meets periodically and provides guidance to the business.

The Bank's Islamic Banking business operates in accordance with Islamic Financial Services Board (IFSB) standards and guidelines, as laid out by the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI). The Bank works with Dar Al Sharia Legal and Financial Consultancy Company (DAS) for day-to-day support and assistance on Sharia-related matters, between RAKBANK and the FSSB.

DAS conducts regular audits to ensure compliance with Sharia regulations and guidance. Fatwas (Sharia pronouncements) are issued by the FSSB for all products and services to certify compliance with the principles of Sharia. These include approving product structure, the underlying Islamic contract, legal documentation, operational process flow and all associated product literature. The product Fatwas issued by the FSSB are published on our website and displayed at RAKBANK branches.

To ensure transparency and a clear distinction between our conventional and Islamic business, we maintain separate sets of product-specific terms and conditions, legal documentation, application forms, and service and price guides. A separate tariff board is displayed at branches and Islamic features are embedded within all transaction documentation.

The Bank's Treasury segment manages Islamic liquidity and asset liability funding distinctly for the Islamic Banking division.

RAKislamic is a proud member of the Islamic Banking Committee of the UAE Bank Federation, formed by the Central Bank of the UAE, which represents all Islamic banks and windows in the country.

RISK MANAGEMENT

RAKBANK's Board and Management believe that an effective risk department is vital to achieving the Bank's strategic growth objectives in a sustainable manner. The Bank has adopted international best practice of three layers of defence in shaping the Banks Organisation structure & Risk Management Function. RAKBANK uses consistent risk management framework at all levels of the organisation and across all risk types.

Our Risk Management Policies sets out governance and structures, responsibilities and processes in monitoring, managing and mitigating the risks we accept and incur in our activities. Further the Risk Management function is independent of the risk taking functions in line with the guidelines of the UAE Central Bank and consistent with our model of three lines of defence.

I. Risk Management Function

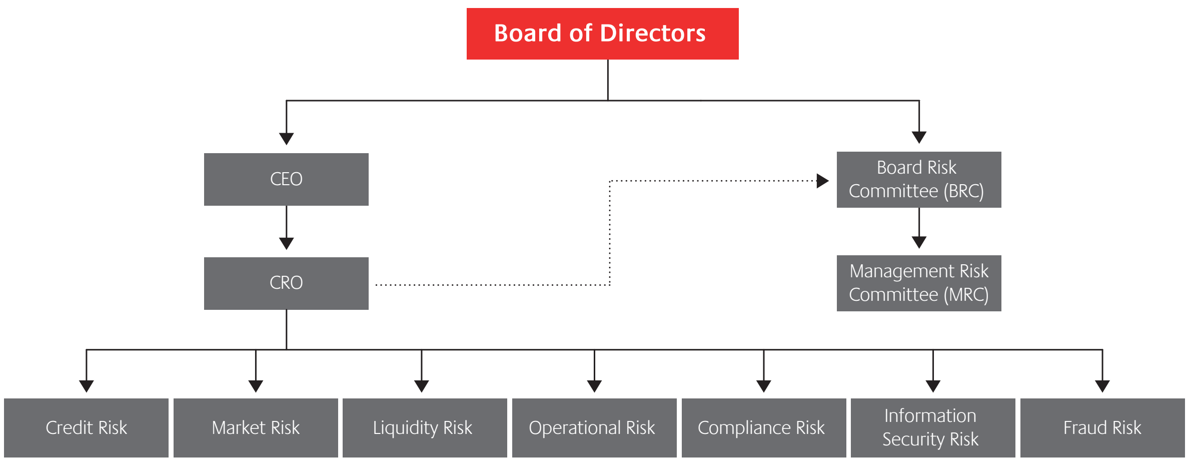
The Board Risk Committee endorses the Bank's overall risk management strategy and appetite, providing the necessary direction concerning risk management measures undertaken by the Bank. Executive accountability for continuous assessment, monitoring and management of the risk environment and efficacy of risk management procedures sits with executive-level committees (the Management Risk Committee and the Management Credit Committee). Various risk functions are centralised under an independent risk department headed by the Chief Risk Officer (CRO).

The Bank has adopted international best practice of three layers of defence in shaping the Banks Organisation structure & Risk Management Function

Credit risk

The Bank has implemented appropriate policies, procedures and systems for the Retail and Wholesale lending businesses to ensure credit exposure is acceptable.

In the Retail lending business, credit risk is managed through appropriate front-end sales and credit underwriting processes as well as and back-end operational and collection processes. Appropriate product programmes defining customer segments, underwriting standards and security requirements are rolled out to ensure consistency in underwriting and the on-boarding process. The Retail credit portfolio is monitored centrally across products and customer segments. For Wholesale exposures, credit risk is managed by identifying target market segments, structured credit approval processes and robust post-disbursement monitoring and remedial processes.



Market risk

Market risk and Treasury mid-office functions operate independently of the Treasury front-office, for effective risk management and control under the leadership of the CRO. The market risk governance framework includes a Board-approved market risk policy and actively tracked market risk limits, in line with extant regulations and internal policies. Risk is undertaken in the book within the limits of the investment and trading policies of the Bank and its overall risk appetite. Market risk policy ensures that all limit breaches, concentrations and other relevant risks are reported to Management and the Board on a timely basis.

Liquidity risk

Liquidity risk is managed by Treasury under the guidance of the Asset and Liability Committee (ALCO) in accordance with UAE Central Bank regulations and the Bank's internal guidelines. Treasury operates a formal and robust liquidity risk management framework that ensures sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events. The Bank monitors its liquidity ratios on a daily basis and has internal triggers to prompt appropriate management action when required. In addition, the Bank uses stress testing and scenario analysis tools for measuring liquidity risk and evaluating the Bank's short-term liquidity position.

Operational risk

Within the Risk Management Department, a dedicated Operational Risk Management (ORM) team establishes the ORM framework and policy for the Bank, under the guidance of the Management Risk Committee and the CRO. The team ensures that the ORM framework, policy and processes are consistent with the risk profile of the Bank and wider regulatory requirements.

The Bank regularly reviews and strengthens the ORM framework, mindful of changes in the risk and regulatory landscape. The framework incorporates a revised methodology for identification, assessment, monitoring and mitigation of operational risks.

Compliance risk

Regulatory compliance continues to be an important area of focus for the Bank's Board and Management. The Bank maintains a zero-tolerance approach with regard to any regulatory breach. An independent Compliance function within the Risk Management Department oversees the compliance risk management framework and procedures across the Bank. The Compliance function is also responsible for actively mitigating Anti Money Laundering (AML) and sanctions risks, apart from reviewing the regulatory landscape and issuance of internal policies. The function is staffed by qualified professionals, with workshops conducted at periodic intervals to maintain and enhance compliance discipline across the Bank. The Bank has made significant investments in surveillance technology and successfully implemented customer and name screening modules.

Information security risk

The Bank operates an independent Information Security (IS) function under the CRO. The IS team proactively monitors the cyber threat landscape and orchestrates controls to mitigate technology risks. The IS practice of the Bank is supported by a 24x7 Security Operations Centre, which monitors and responds to information security threats. RAKBANK's IS team was recognised and awarded 'Best Security and Risk Management Project' at the Asian Banker Awards 2017 and 'International Business Excellence Award 2017' for Information Security.

Fraud risk

The Bank's Management and Board recognise that proactive fraud risk management is an integral part of RAKBANK's overall risk management strategy. The Bank has set up focused units to address, prevent, detect and respond to all aspects of fraud. In 2017, RAKBANK implemented an industry-leading fraud risk management solution to augment its fraud prevention and detection capabilities.

Internal Controls

The Internal Controls unit is responsible for approval of the Bank's operating procedures. Internal Controls ensure consistency and effectiveness of operating procedures, customer signed request forms and internal checklists for products, operations and processes. The unit also acts as the central repository for Risk Acceptance approvals.

II. Credit Function

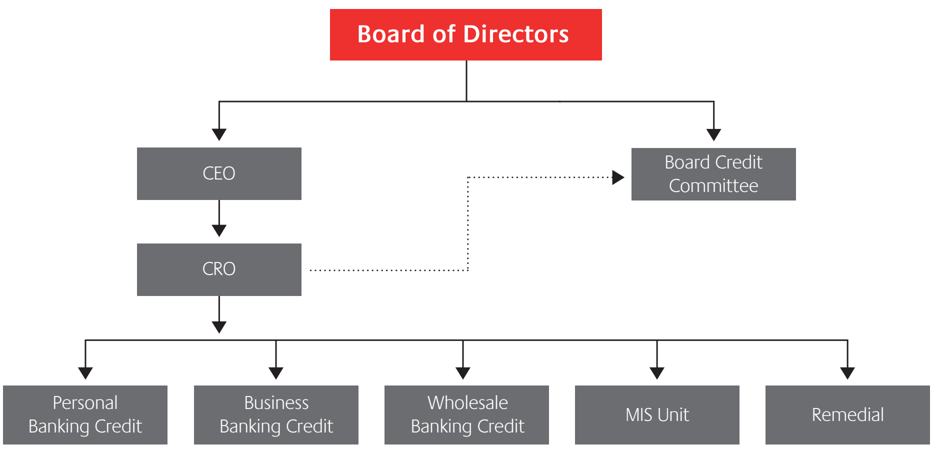
The Bank operates a centralised model for the credit management functions of both the Retail and Wholesale lending businesses, independent of the Operations and Business departments. The Credit unit is headed by Chief Credit Officer who reports directly to the Chief Executive officer.

The Credit Underwriting Unit is responsible for recognition and management of credit risk at transaction level. The Bank has implemented appropriate policies, procedures and systems for the lending businesses to ensure credit exposure is acceptable and the Underwriting Units ensure that risk procedures are adhered to in a manner that is consistent with the framework set out in the policies and product programs that comply with regulatory norms. The Bank has a structured limit application for the evaluation of credit risk, which requires analysis under various risk categories. The credit is assessed by quantifying the credit quality of counterparties in terms of its graded structure, capturing changes in risk profiles as and when they occur and providing management with an effective tool to monitor the credit portfolio. Furthermore, the Bank uses Moody's RiskAnalyst System for rating individual obligors for the Business banking and Wholesale bank portfolios.

The Board Credit Committee oversees credit management measures, which includes portfolio, sectoral and customer-level reviews. In addition, the committee reviews the quality of assets and health of large borrower accounts and borrower groups.

III. Internal Audit Function

Internal Audit function completes the "three lines of defence" mechanism as the third line of defence. The Internal Audit department is totally independent of the management. Director Group Internal Audit department reports directly to the Board Audit Committee which oversees the functioning of Internal Audit function. The Audit Committee, in addition monitors the appropriateness and integrity of the published financial statements of the Bank and its subsidiaries, approves the terms of engagement of External Auditors and receives and reviews regulatory inspection reports from UAE Central Bank and other such regulators.



DIRECTORS' REPORT TO THE SHAREHOLDERS

We are pleased to present the results of RAKBANK (the "Bank") and its subsidiaries (collectively known as the "Group") for the year ended 31 December 2017. Net Profit for the year amounted to AED 810.5 million, an increase of AED 147.5 million (22.3%) over the previous year. Total Assets stood at AED 48.5 billion, an increase of 14.2% compared to 31 December 2016. Gross Loans and Advances closed at AED 33.2 billion, up by 11.6% over the previous year. The Return on Average Assets ratio closed at 1.8% and the Return on Average Equity was 10.6%.

Financial performance

The increase of AED 147.5 million in Net Profit was mainly due to a decrease of AED 254.7 million in provision for impairment in loans. Total Operating Income decreased by 0.8% due to the rebalancing of the loan portfolio, while Operating Expenses increased by AED 77.8 million, up by 5.7% over the previous year. Operating Expenses increased, mainly due to legal and collection expenses and staff costs.

Operating Profit before impairment losses decreased by AED 107.2 million over 2016. This was offset by a decrease in provisions for loan impairment by 14.1% from the previous year. Total impairment provision for the year was AED 1,552.9, million compared to AED 1,807.7 million in 2016.

The decline in Total Operating Income by AED 29.5 million to AED 3.8 billion was mainly due to a decrease of AED 101.9 million in Net Interest Income and income from Islamic finance net of distribution to depositors compared to the previous year. This decline was planned as part of our efforts to rebalance our lending portfolio to decrease our focus on higher risk unsecured lending. Net Interest Income and income from Islamic financing fell to AED 2.7 billion. Interest income from conventional loans and investments increased by 0.9%, while interest costs on conventional deposits and borrowings rose by AED 83.2 million. Net income from Sharia-compliant financing was down by AED 43.2 million.

Non-interest income grew by AED 72.4 million to AED 1.1 billion. This was mainly due to increases of AED 62.0 million in income from fees and commissions, AED 5.3 million in other income, AED 19.4 million in gross insurance underwriting profit and AED 24.1 million in foreign exchange and derivative income. This was offset by a decrease of AED 38.4 million in investment income compared to 2016.

Operating costs were up by AED 77.8 million, an increase of 5.7% in 2017. This was mainly due to an increase of AED 42.9 million in staff costs, AED 36.7 million in legal and collection expenses, AED 13.0 million in other expenses and AED 9.2 million in computer expenses. This was partly offset by a decrease in outsourced staff costs at AED 14.8 million and AED 10.7 million in depreciation. The Group's cost to revenue ratio increased to 38.0% compared to 35.6% for the previous year.

The non-performing loans and advances to gross loans and advances ratio dropped to 4.0% from 4.2% in the previous year. Net credit losses to average loans and advances were also reduced, closing at 5.0% compared to 6.2% in 2016. The Group is well provisioned against loan losses, with a conservative loan loss coverage ratio of 74.6% compared to 84.3% at the end of the previous year. This coverage ratio does not take into consideration mortgaged properties and other realizable asset collateral available against the loans. Additionally, the Bank has a non-distributable regulatory credit risk reserve equal to 1.5% of its credit risk rated assets, amounting to AED 492 million. Together with this reserve, the provision coverage ratio would increase to 111%.

Total Assets rose by 14.2% to AED 48.5 billion compared to the end of 2016. This was due to an increase in Gross Loans and Advances of AED 3.5 billion, lending to banks - which grew by AED 1.2 billion - and an increase in investments of AED 758 million. Wholesale Banking lending grew by 42.8%, up by AED 1.9 billion from the previous year. Personal Banking's loan portfolio was up by AED 1.1 billion and Business Banking's loan portfolio was up by AED 434.5 million compared to 31 December 2016.

Customer deposits grew by 9.4% to AED 32.2 billion compared to 2016. This growth came mainly from an increase of AED 3.1 billion in time deposits and AED 297.0 million in demand deposits.

After taking into consideration the profit for 2017 and proposed dividend for 2017, the Bank's Tier 1 ratio as per Basel II was 20.3% at year-end. This compares with 22.3% at the end of 2016. The ratio as per Basel III as at end of 2017 stands at 20.7%. This level of capital provides the Bank with ample room for growth in 2018. The regulatory eligible liquid asset ratio at the end of the year was 15.0%, compared to 16.9% the previous year. The advances to stable resources ratio stood comfortably at 87.8% compared to 85.5% at the end of 2016.

Dividend and appropriation of profits

The Directors, at the board meeting held on 29 January 2018 have recommended a cash dividend of 30%. The dividend recommendations will result in 38% of net profit being retained within the Bank's shareholders equity thereby increasing capital and reserves to strengthen the Bank's overall position and provide support for future growth.

The Directors propose to increase the regulatory credit risk reserve by AED 71 million to align it at 1.5% of the Bank's total credit risk weighted assets

Ratings

The Bank is currently rated by the following agencies. The ratings are given below:

Rating agency	Last update	Deposits	Outlook
Moody's	August 2017	Baa1/P-2	Stable
Fitch	November 2017	BBB+/F2	Stable
Capital Intelligence	August 2017	A-/A2	Stable

Developments in 2017

- Launched 3 new branches that are conveniently located in central business hubs - Al Hamra in Ras Al Khaimah, Jabal Ali Free Zone (JAFZA) and Dubai Investment Park (DIP) in Dubai
- Launched an enhanced Digital Banking platform. The Bank's digital transformation is designed to provide end users with features such as heightened security, maximum convenience, and real-time transaction processing
- Launched the Samsung Pay mobile payment solutions to the Bank's customers on mobile phones and ATMs, in partnership with Samsung Gulf Electronics
- Signed an agreement with C3, a Prepaid Card Service Provider, to provide C3 with a BIN sponsorship on their prepaid cards to strengthen the C3 payroll offering
- Introduced a 'We Care' campaign, which focuses mainly on enhancing the banking experience for people with determination, pregnant women, and mothers with children
- Extended money remittance services to Pakistan through RAKMoneyTransfer
- Signed an agreement with Sharjah Electricity & Water Authority (SEWA) to facilitate the SEWA bill payment solution through the Bank's Digital Banking platform, for RAKBANK customers that live and have businesses in Sharjah
- RAKBANK was the first bank in the Middle East to partner with a FinTech platform, Invoice Bazaar, to offer Supply Chain Finance solutions to SME clientele. The partnership allows RAKBANK to participate as a 'Receivable Purchaser' on Supply Chain Finance transactions originated by Invoice Bazaar
- Launched a USD 250 million 3-year Syndicated Term Loan Facility. The syndication was launched on 8 August 2017 and the facility was well received by the market and oversubscribed on the back of strong participation from regional and international banks. RAKBANK decided to upsize the facility size to USD 350 million

- Hosted the 'Happiness Without Borders' workshop at RAKBANK headquarters in Dubai Silicon Oasis, which brought together Chief Happiness and Positivity Ministers from various government entities
- Launch of Apple Pay to the Bank's customers
- Entered the merchant acquisition business with 'RAKBANK Pay' by offering merchants across the country the ability to accept electronic payments safely and securely, using the latest technology across all channels
- Partnered with Ripple to power instant remittance payments to India using Blockchain. RAKBANK is the first financial institution to offer blockchain remittance through Ripple
- The Dubai Gold and Commodities Exchange (DGCX), the Dubai Multi Commodities Centre (DMCC) and RAKBANK signed a Memorandum of Understanding (MoU) for the development of bullion products
- Dubai SME and RAKBANK signed an MoU to facilitate SME financing
- Ras Al Khaimah Economic Zone (RAKEZ) and RAKBANK signed a Memorandum of Understanding (MoU) to offer the economic zone's 13,000+ clients easy access to a wide range of banking services on preferential terms
- Partnered with the Mohammed Bin Rashid Innovation Fund, MBRIF, to support local talent by providing a stepping stone for start-ups in the UAE that have an innovative and sustainable business model

Recognition in 2017

- RAKBANK won the following awards at the H1 Yallacompare Banking Awards, for the January to June 2017 period:

  - Home Loan Provider of the Year for Home in One
  - SME Finance Provider of the Year

- The Asian Banking and Finance Awards 2017 awarded RAKBANK with two titles for Home in One in the following categories:

  - Advertising Campaign of the Year in the UAE
  - New Consumer Lending Product of the Year in the UAE

- RAKBANK won Best SME Bank at the Banker Middle East (BME) Industry Awards 2017
- RAKBANK won Best Strategy, Change and Transformation – Digital Banking at the International Business Excellence Awards 2017
- RAKBANK won Best E-Commerce and Digital Experience – Digital Banking at the International Business Excellence Awards 2017
- The Bank received the Government Accelerator Recognition Award for achievements in Emiratisation
- RAK Money Transfer won Remittance Product of the Year at the Middle East Asian Bankers Award
- RAKBANK received the 11th Middle East Happiness and Positivity Excellence Award for the Banking and Financial category, from the Middle East Excellence Award Institute
- MasterCard presented RAKBANK with Best SME Program

Outlook for 2018

Looking to 2018 and beyond, we will build on the successes of the year to maintain growth across our principal business units, while at the same time adapting and expanding our product range to exceed the expectations of our customers. Despite challenges in recent years, RAKBANK remains firmly committed to the SME community. We also see our re-entry into the wholesale market, and our refreshed approach to our Personal Banking offering as crucial to ensuring that we provide superior products and services to all clients in the UAE. We believe that the customers' journey is the Banks' journey, and so the more holistic our offering the closer our relationship becomes. The Bank's aim is to continue to diversify the loan book in core areas, while at the same time diversifying income from non-interest products and services, and expanding our footprint in the Wholesale and Treasury space. RAKBANK will continue to find ways to optimise its operating costs, improving efficiency across the Group, and to engage in strategic partnerships with selected parties that will give us a competitive edge in the market.

For and on behalf of the Board of Directors

H.E. Mohamed Omran Alshamsi
Chairman

29 January 2018

04 FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT

The Shareholders
The National Bank of Ras Al-Khaimah (P.S.C.)
Ras Al-Khaimah
United Arab Emirates

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of **The National Bank of Ras Al-Khaimah P.S.C., Ras Al Khaimah, United Arab Emirates** (the "Bank") and its subsidiaries (together referred to as the "Group") which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other requirements relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment against loans and advances

Risk

We focused on this area because it requires management and those charged with governance to make significant judgements, such as the identification of loans that are deteriorating, the assessment of objective evidence of impairment, and the assessment of the recoverable amount and the value of collateral. Due to the significance of net loans and advances (representing 66% of total assets) and the related estimation uncertainty, we consider this a key audit matter. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, relate to unsecured exposures or are subject to potential collateral shortfalls.

It is the judgements for collective provisioning which are the most significant as they are the most sensitive to adjustment. The two key judgements in the collective provisioning assessment are the likelihood of default and the emergence period and it is the earlier which is the single most critical judgement.

The Bank's individual provisions are also subjective as a result of judgements needed and the relatively limited amount of data available for future cash flows. These loans are individually monitored and the assessment of individual provisions for these loan portfolios involves knowledge of each borrower. The key judgement for individual provisions on these portfolios is the recoverable value of underlying collateral.

A management overlay is applied to the modelled provisioning balances to reflect risk factors not taken into account by the models. This requires judgement in relation to the factors to be reflected as well as their estimated value.

How the matter was addressed in our audit

Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans, and evaluating the methodologies, inputs and assumptions used by the Bank in calculating collectively assessed impairments and assessing the adequacy of impairment allowances for individually assessed loans.

We evaluated the design and tested operating effectiveness of relevant controls to identify loss events and assess and determine the extent to which impairments should be recognised considering the potential for management override of controls. These included testing:

- System-based and manual controls over the timely identification and recognition of impaired loans;
- Controls over the impairment calculation models;
- Controls over collateral valuation estimates; and
- Controls over governance and approval process related to impairment provisions, including continuous reassessment by the management.

We tested a sample of loans to assess whether impairment events had been identified in a timely manner.

In addition, we also focused on individually significant exposures. We tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default.

Risk	How the matter was addressed in our audit
Management also applies adjustments, or overlays, where they believe the data driven parameters and calculations are not appropriate, either due to emerging trends or models not capturing the risks in the loan portfolio. An example of this is an overlay for the concentration against certain borrowers which management apply on top of the impairment model output. These overlays require significant judgement.	We paid particular attention to collective impairment methodologies, focusing specifically on retail loans, either due to their relative size or the potential impact of changing inputs and assumptions. We also focused on portfolios that were potentially more sensitive to emerging economic trends.

Valuation of financial instruments

Accounting for financial investments in accordance with IAS 39 'Financial Instruments' and IFRS 13 'Fair Value Measurement' can be complex and has a significant impact on measuring the Bank's objectives. Financial instruments valuation carries high risk, in particular unquoted and illiquid investments valuation due to:

- Inherently a judgemental area for unquoted investments.
- Using inappropriate models to value investments.
- Using inappropriate assumptions to value investments.
- Depending on valuation models not fully supported by robust and objective evidence.
- Reliability of prices that are being used for valuation.

Our audit procedures included:

- Evaluating the design and testing operating effectiveness of the relevant controls in the Banks' financial instrument valuation processes including the controls over data feeds and other inputs into valuation models and the controls over testing and approval of new models or changes to existing models;
- Reviewing and testing internal controls related to valuation of financial instruments;
- Reviewing valuations for stale prices that may not be indicative of fair value for quoted investments;
- Reviewing specific investment valuation models for unquoted investments and assessing reasonableness of assumptions used in models;
- Verifying market values of quoted investments (securities), comparing observable inputs against independent sources and externally available market data and evaluating compliance with IFRS 13 'Fair Value Measurement';
- Reviewing accounting policy for impairment for quoted debt and equity available-for-sale investments;

Risk	How the matter was addressed in our audit
Hedge accounting is a complex accounting topic in financial reporting due to: • Methodology of designation, effectiveness testing, measuring of ineffectiveness and documentation; and • Valuation of hedging instruments considering value adjustments for counterparty, own credit and funding risk.	• For instruments with significant, unobservable valuation inputs, we used our own internal valuation specialists to assess and challenge the valuation assumptions used, including considering alternative valuation methodologies used by other market participants; • Comparing the Bank's pricing approach to other major institutions; • Reviewing the Bank's policy for classification of valuations as level 1, 2 or 3 and other financial instruments disclosures. Reviewing risk management strategy and objectives: • We also critically assessed the adequacy of the Bank's disclosures including the accuracy of the fair value measurement categorisation and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, changes in estimate occurring during the period and the sensitivity to the key assumptions; • Reviewing accounting for qualifying hedging relationships including hedge designation and effectiveness assessment; and • Ensuring proper disclosures in the consolidated financial statements.

Reliability and continuity of the information technology and systems

Risk	How the matter was addressed in our audit
Failure of not having appropriate IT systems and controls in place may lead to severe consequences on business continuance and the financial reporting process.	• We evaluated the design and operating effectiveness of Group's IT access controls over the information systems that are critical to financial reporting. We tested IT general controls (logical access, change management and aspect of IT operational controls). This included testing that requests for access to systems were appropriately reviewed and authorised and access for terminated or transferred employees is revoked in timely manner. We tested the user authentication, privilege access controls around key application systems and infrastructure supporting them. We tested the Group's periodic review of access rights. We inspected requests of changes to systems for appropriate approval and authorisation. We considered the control environment relating to various automated calculations, automated access controls, configurable controls and other application layer controls identified as key to our audit.

Other information

The Board of Directors is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Director's report to the shareholder prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the subsidiaries of the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. (2) of 2015, we report that:

i) We have obtained all the information we considered necessary for the purposes of our audit;
ii) The consolidated financial statements of the Group have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
iii) The Group has maintained proper books of account;
iv) The financial information included in the Directors' report is consistent with the Group's books of account;
v) Note 7 to the consolidated financial statements of the Group discloses securities purchased or invested in shares during the financial year ended 31 December 2017;
vi) Note 34 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
vii) Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2017 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2017; and
viii) Note 41 to the consolidated financial statements of the Bank discloses social contributions made during the financial year ended 31 December 2017.

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

Deloitte & Touche (M.E.)

Musa Ramahi
Registration No. 872
29 January 2018
Dubai - United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Notes	2017	2016
		AED'000	AED'000
ASSETS			
Cash and balances with UAE Central Bank	4	4,740,566	4,431,016
Due from other banks	5	3,799,239	2,629,230
Loans and advances, net	6	32,240,193	28,725,869
Investment securities	7	5,568,749	4,810,682
Insurance contract assets and receivables	8	424,897	340,959
Customer acceptances		171,307	49,563
Other assets	9	545,935	475,925
Goodwill and other intangible assets	10	170,932	174,141
Property and equipment	11	875,340	872,844
Total assets		**48,537,158**	**42,510,229**
LIABILITIES AND EQUITY			
Liabilities			
Due to other banks	12	2,764,199	1,561,877
Deposits from customers	13	32,175,874	29,398,185
Debt securities in issue and syndicated borrowing	14	4,169,302	2,730,072
Insurance contract liabilities and payables	15	516,991	465,826
Customer acceptances		171,307	49,563
Other liabilities	16	871,041	724,327
Total liabilities		**40,668,714**	**34,929,850**
Equity			
Share capital	17	1,676,245	1,676,245
Legal reserve	18	950,431	950,431
Retained earnings		2,101,295	1,879,029
Other reserves	19	3,089,364	3,031,209
Equity attributable to owners of the Bank		**7,817,335**	**7,536,914**
Non-controlling interests	20	51,109	43,465
Total equity		**7,868,444**	**7,580,379**
Total Liabilities and Equity		**48,537,158**	**42,510,229**

The accompanying notes form an integral part of these consolidated financial statements.

H.E. Mohamed Omran Alshamsi
Chairman

Peter William England
Chief Executive Officer

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017	2016
		AED'000	AED'000
Interest income	21	2,783,368	2,758,874
Interest expense	21	(359,956)	(276,794)
Net interest income		**2,423,412**	**2,482,080**
Income from Islamic financing	22	339,025	379,776
Distribution to depositors	22	(39,215)	(36,755)
Net income from Islamic financing		**299,810**	**343,021**
Net interest income and net income from Islamic financing		**2,723,222**	**2,825,101**
Net fees and commission income	23	717,012	655,002
Foreign exchange and derivative income		131,217	107,150
Gross insurance underwriting profit	24	74,675	55,240
Investment income	25	87,891	126,305
Other operating income		75,828	70,515
Non-interest income		**1,086,623**	**1,014,212**
Operating income		**3,809,845**	**3,839,313**
Operating expenses	26	(1,446,380)	(1,368,621)
Operating profit before provision for impairment		**2,363,465**	**2,470,692**
Provision for impairment of loans and advances, net	6(d)	(1,552,963)	(1,807,714)
Profit for the year		**810,502**	**662,978**
Attributed to:			
Owners of the Bank		800,459	659,542
Non-controlling interests		10,043	3,436
Profit for the year		**810,502**	**662,978**
Earnings per share:			
Basic and diluted in AED	27	0.48	0.39

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	AED'000	AED'000
Profit for the year	810,502	662,978
Other comprehensive income / (loss) (Items that will be reclassified subsequently to profit or loss)		
Net changes in fair value of available-for-sale investment securities	(13,612)	39,577
Net changes in fair value arising from cash flow hedges	(1,745)	-
Other comprehensive (loss) / income for the year	**(15,357)**	**39,577**
Total comprehensive income for the year	**795,145**	**702,555**
Attributed to:		
Owners of the Parent	785,217	696,144
Non-controlling interests	9,928	6,411
Total comprehensive income for the year	**795,145**	**702,555**

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Share capital AED'000	Share premium AED'000	Legal reserve AED'000
Balance at 1 January 2016	1,676,245	110,350	839,590
Profit for the year	-	-	-
Other comprehensive income	-	-	-
Total comprehensive income for the year	-	-	-
Zakat	-	-	-
Transfer to regulatory credit risk reserve	-	-	-
Transfer to legal reserve	-	(110,350)	110,841
Transfer to voluntary reserve	-	-	-
Dividend paid	-	-	-
Balance at 31 December 2016	1,676,245	-	950,431
Balance at 1 January 2017	**1,676,245**	**-**	**950,431**
Profit for the year	**-**	**-**	**-**
Other comprehensive income	**-**	**-**	**-**
Total comprehensive income for the year			
Zakat	**-**	**-**	**-**
Transfer to regulatory credit risk reserve	**-**	**-**	**-**
Treasury stock	**-**	**-**	**-**
Directors' remuneration	**-**	**-**	**-**
Dividend paid	**-**	**-**	**-**
Balance at 31 December 2017	**1,676,245**	**-**	**950,431**

The accompanying notes form an integral part of these consolidated financial statements.

	Retained earnings AED'000	Other reserves AED'000	Equity attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
	2,102,951	2,950,116	7,679,252	38,196	7,717,448
	659,542	-	659,542	3,436	662,978
	-	36,602	36,602	2,975	39,577
	659,542	36,602	696,144	6,411	702,555
	(482)	-	(482)	-	(482)
	(44,000)	44,000	-	-	-
	(491)	-	-	-	-
	(491)	491	-	-	-
	(838,000)	-	(838,000)	(1,142)	(839,142)
	1,879,029	3,031,209	7,536,914	43,465	7,580,379
	1,879,029	**3,031,209**	**7,536,914**	**43,465**	**7,580,379**
	800,459	**-**	**800,459**	**10,043**	**810,502**
	-	**(15,242)**	**(15,242)**	**(115)**	**(15,357)**
	800,459	**(15,242)**	**785,217**	**9,928**	**795,145**
	(394)	**-**	**(394)**	**-**	**(394)**
	(71,000)	**71,000**	**-**	**-**	**-**
	-	**2,397**	**2,397**	**-**	**2,397**
	(4,000)	**-**	**(4,000)**	**-**	**(4,000)**
	(502,799)	**-**	**(502,799)**	**(2,284)**	**(505,083)**
	2,101,295	**3,089,364**	**7,817,335**	**51,109**	**7,868,444**

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	AED'000	AED'000
Cash flows from operating activities		
Profit for the year	810,502	662,978
Adjustments:		
Provision for impairment of loans and advances, net	1,552,963	1,807,714
Depreciation of property and equipment	98,193	108,908
Amortisation of intangible assets	3,209	3,208
Fair valuation of asset acquired	350	550
Provision for employees' end of service benefits	13,362	20,898
Insurance related provision released	(12,000)	-
Gain on disposal of property and equipment	(55)	(978)
Amortisation of discount / premium relating to investments securities	(3,142)	14,878
Gain on sale of held-for-trading investment securities	(5,297)	(4,219)
Impairment provision investment securities	7,838	25,611
Gain on sale of available-for-sale investment securities	(86,263)	(121,128)
Gain on held for trading investment securities	(81)	(227)
Changes in operating assets and liabilities	**2,379,579**	**2,518,193**
(Decrease) / increase in deposits with the UAE Central Bank	(153,227)	459,914
Increase in due from other banks with original maturities of three months or over	(1,216,093)	(1,003,041)
Increase in loans and advances, net	(5,067,287)	(2,735,487)
Increase in insurance contract assets and receivables	(83,938)	(40,846)
Increase in other assets and customer acceptances	(191,765)	(41,754)
Increase in due to other banks	1,202,322	505,736
Increase in deposits from customers	2,777,689	1,578,080
Increase in insurance contract liabilities and payables	51,165	76,043
Increase in other liabilities and customer acceptances	264,517	13,823
Net cash (used in) / generated from operating activities	**(37,038)**	**1,330,661**
Cash flows from investing activities		
Purchase of investment securities	(7,406,851)	(3,901,196)
Purchase of property and equipment	(101,184)	(85,038)
Proceeds from maturity / disposal of investment securities	6,722,612	3,330,248
Proceeds from disposal of property and equipment	550	1,714
Net cash used in investing activities	**(784,873)**	**(654,272)**
Cash flows from financing activities		
Dividends paid	(505,083)	(839,142)
Zakat paid	(394)	(482)
Directors' remuneration	(4,000)	-
Issue / (purchase) of debt security and syndicated borrowing	1,439,230	(134,655)
Treasury stock	2,397	-
Net cash generated from / (used in) financing activities	**932,150**	**(974,279)**
Net increase / (decrease) in cash and cash equivalents	**110,239**	**(297,890)**
Cash and cash equivalents, beginning of the year	2,141,959	2,439,849
Cash and cash equivalents, end of the year (Note 32)	**2,252,198**	**2,141,959**

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

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, UAE.

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

At 31 December 2017, The National Bank of Ras Al-Khaimah (P.S.C.) comprises the Bank and six subsidiaries (together referred to as the "Group"). The consolidated financial statements for the year ended 31 December 2017 comprises the Bank and following direct subsidiaries:

Subsidiary	Authorised and issued capital	Ownership interest	Incorporated	Principal activities
Ras Al Khaimah National Insurance Company PSC	AED 110 million	79.23%	UAE	All type of insurance business.
RAK Islamic Finance Company Pvt. J.S.C**	AED 100 million	99.9%*	UAE	To sell sharia compliant financial products.
BOSS FZCO	AED 500,000	80%*	UAE	Back office support services to the Bank.
RAK Technologies FZCO	AED 500,000	80%*	UAE	Technological support services to the Bank.
Rakfunding Cayman Limited	Authorised USD 50,000 Issued USD 100	100%	Cayman Island	To facilitate the issue of USD 800 million Euro medium term notes (EMTN) under the Bank's USD 1 billion EMTN program.
Rak Global Markets Cayman Limited	Authorised USD 50,000 Issued USD 1	100%	Cayman Island	To facilitate Treasury transactions.

*These represent legal ownership of the Bank. However, beneficial ownership is 100% as the remaining interest is held by a related party on trust and for the benefit of the Bank.

**On 19 April 2017, the shareholders at the annual general meeting resolved to liquidate RAK Islamic Finance Company Pvt. J.S.C. (the "Company") and transfer the net assets and obligations to the Bank at book value. On 21 June 2017, the shareholders approved in the General Assembly to liquidate the Company and resolved to dissolve it in accordance with the provisions of the Federal Law No. (2) of 2015.

2. Application of new and revised International Financial Reporting Standards (IFRS)

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2017, have been adopted in these consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years, except for IAS 7, but may affect the accounting for future transactions or arrangements.

- Amendments to IAS 12 Income Taxes relating to the recognition of deferred tax assets for unrealised losses;
- Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities;
- Annual Improvements to IFRS Standards 2014-2016 Cycle - Amendments to IFRS 12.

IAS 7: Statement of Cash Flow

The Group has applied IAS 7 amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of debt securities in issue and syndication borrowings (Note 14). A reconciliation between the opening and closing balances of these items is provided in Note 14. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in the application of these amendments has had no impact on the Group's consolidated financial statements.

2.2 New and revised IFRS in issue but not yet effective

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 9, may have no material impact on the consolidated financial statements of the Group in the period of initial application.

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1 and IAS 28.	1 January 2018
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3, IFRS 11, IAS 12 and IAS 23.	1 January 2019
IFRIC 22 Foreign Currency Transactions and Advance Consideration. The interpretation addresses foreign currency transactions or parts of transactions where: • There is consideration that is denominated or priced in a foreign currency; • The entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • The prepayment asset or deferred income liability is non-monetary.	1 January 2018
IFRIC 23 Uncertainty over Income Tax Treatments. The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances.	1 January 2019
Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions.	1 January 2018
Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014): IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments. A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas: • **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk. • **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised. • **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures. • **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.	1 January 2018

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 15 Revenue from Contracts with Customers. In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer; • Step 2: Identify the performance obligations in the contract; • Step 3: Determine the transaction price; • Step 4: Allocate the transaction price to the performance obligations in the contract; • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation. Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	January 2018
Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	January 2018
IFRS 16 Leases. IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	January 2019

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 9 Financial Instruments: Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	January 2019
Amendments to IAS 28 Investment in Associates and Joint Ventures: Relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	January 2019
Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
IFRS 7 Financial Instruments: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
IFRS 17 Insurance Contracts. IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.	1 January 2021
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted

Impact on adoption of IFRS 9: Financial Instruments

The IASB issued the final version of IFRS 9 "Financial Instruments", which replaces IAS 39, "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for how an entity should classify and measure financial assets, requires changes to the reporting of 'own credit' with respect to issued debt liabilities that are designated at fair value, replaces the current rules for impairment of financial assets and amends the requirements for hedge accounting. The standard also requires entities to provide users of financial statements with more informative and relevant disclosures. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. Based on 30 November 2017 data, the Group has performed a preliminary assessment of potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at the date of initial application of IFRS 9 (1 January 2018). The Group estimates the adoption of IFRS 9 to lead to an overall reduction in the Group's total shareholders' equity of approximately AED 928 million. This reduction is predominately driven by the impairment requirements of IFRS 9.

The Group has a centrally managed IFRS 9 program sponsored by the Group's Chief Financial Officer and Group's Chief Risk Officer and includes subject matter experts on methodology, data sourcing and modelling, IT processing and reporting. The Group performed parallel runs in 2017 to ensure procedural readiness and further improve the data quality of new data required.

Overall governance of the program's implementation is through the IFRS 9 Steering Committee and includes representation from Finance and Risk. Guidance and training on IFRS 9 across the Group is delivered across businesses and functions. The Group enhanced its existing governance framework to ensure that appropriate validations and controls are in place over new key processes and significant areas of judgment. Governance over the Expected Credit Loss calculation process is split across Risk and Finance functions.

Classification and Measurement of Financial Assets and Liabilities

IFRS 9 requires that an entity's business model and a financial instrument's contractual cash flows will determine its classification and measurement in the financial statements. As the requirements under IFRS 9 are different than the assessments under the existing IAS 39 rules, some differences to the classification and measurement of financial assets under IAS 39 are expected. The classification and measurement of financial liabilities remain largely unchanged under IFRS 9 from current requirements.

The Group made an initial determination of business models and assessed the contractual cash flow characteristics of the financial assets to determine the potential classification and measurement changes as a result of IFRS 9. As a result of the analysis performed thus far, the Group has identified a population of financial assets which are expected to be measured at either amortized cost or fair value through other comprehensive income, which will be subject to the IFRS 9 impairment rules. However, the actual impact that IFRS 9 classification and measurement will have on the Group is mainly dependent on the business models and the inventory of financial assets which exist at the effective date, and as such the Group will roll forward the analysis during 2018 to take into consideration any changes in business strategies and composition of financial assets. There will be no material impact due to the classification and measurement of financial assets.

IFRS 9 retains most of the existing requirements for financial liabilities. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk may be presented in other comprehensive income. The Group does not have any liability designated at fair value.

Impairment of Financial Assets

The impairment requirements are complex and require management judgements, estimates and assumptions.

Key concepts and management judgements as defined by the IFRS 9 Steering Committee were continued to be refined during the 2017 parallel run and as any further authoritative guidance is issued, and include:

- Determining a significant increase in credit risk since initial recognition;
- Forward-looking information;
- Definition of default and credit impaired assets;
- Expected life;
- Modelling techniques.

The impairment requirements of IFRS 9 apply to financial assets that are measured at amortized cost or FVTOCI, and off balance sheet lending commitments such as financial guarantees (hereafter collectively referred to in this note as financial assets).

The determination of impairment losses and allowance will move from an incurred credit loss model whereby credit losses are recognized when a defined loss event occurs under IAS 39, to an expected loss model under IFRS 9, where provisions are taken upon initial recognition of the financial asset (or the date that the Group becomes a party to the financial guarantee), based on expectations of potential credit losses at that time under IFRS 9.

Under IFRS 9 for financial assets originated or purchased, the Group will recognize a loss allowance at an amount equal to 12-month expected credit losses, if the credit risk at the reporting date has not increased significantly since initial recognition (Stage 1). This amount represents the portion of the lifetime expected credit losses that represent the expected credit losses resulting from default events that are possible within the next 12 months. The interest revenue is calculated on the gross carrying amount for financial assets in Stage 1.

IFRS 9 requires the recognition of lifetime expected credit losses which are considered to have experienced a significant increase in credit risk (Stage 2) and for financial assets that are credit impaired at the reporting date (Stage 3). The lifetime expected credit losses represent all possible default events over the expected life of a financial instrument. The Group leverages existing risk management indicators e.g. credit rating changes and taking into consideration reasonable and supportable information which allows the Group to identify whether the credit risk of financial assets has significantly increased. This process includes considering forward-looking information, including macro-economic factors. Furthermore, 30 days past due rebuttable presumption is applied uniformly on all loans. The interest revenue is calculated on the gross carrying amount for financial assets in Stage 2.

As the primary definition for credit impaired financial assets moving to Stage 3, the Group will apply the default definition as defined by the IFRS 9 Steering Committee. Interest revenues are calculated on the net carrying amount for these financial assets only.

IFRS 9 does not distinguish between individually significant or not individually significant financial instruments. Therefore, the Group decided to measure the allowance for credit losses on an individual transaction basis for the individually significant corporate, commercial and trade and working capital portfolios. Similarly, the assessment for transferring financial assets between Stages 1, 2 and 3 will also be made on an individual transaction basis. However, for the not individually significant retail portfolio, the group has decided to measure the allowance for credit losses on a retail product level.

There is no specific methodology defined in IFRS 9 for the measurement of expected credit losses. The Group applied the most widely used methodology in the banking industry. This methodology will use three key input parameters for the computation of expected loss, being probability of default ('PD'), loss given default ('LGD') and exposure at default ('EAD'). However, given the conservatism inherent in the regulatory expected losses calculation, some adjustments to these components must be made to ensure compliance with IFRS 9. Therefore, the Group will leverage the existing parameters of the Basel framework and risk management practices as much as possible on transaction level. However, the Group will also apply the simpler loss rate approach for nonmaterial portfolios. These are identified and informed to the Steering Committee.

As there will be an increase in subjectivity as the allowance for credit losses will be based on reasonable and supportable forward-looking information which take into consideration future macro-economic scenarios. These macro-economic scenarios are continuously monitored and in addition to being used for the Group's expected credit loss calculation, this information also forms the basis for performing the Group's capital planning and stress-testing. This information is used to generate possible future scenarios by utilizing the Group's stress testing infrastructure with appropriate modifications to align with IFRS 9 requirements. The Group is in the process of analyzing synergies with the capital forecasting and stress-testing processes. The transition impact and effects resulting from the continuous application of IFRS 9 are reflected in the Group's capital planning for 2018 and onwards. The general use of forward-looking information, including macro-economic factors as well as adjustments taking into account extraordinary factors will be monitored by a governance framework.

This estimated increase is driven by the requirement to record an allowance equal to 12 months expected credit losses on those instruments whose credit risk has not significantly increased since initial recognition and driven by the larger population of financial assets to which lifetime expected losses must be applied.

Hedge accounting

IFRS 9 also incorporates new hedge accounting rules that intend to align hedge accounting with risk management practices. Generally, some restrictions under current rules have been removed and a greater variety of hedging instruments and hedged items become available for hedge accounting. Hedge accounting currently followed by the Group under IAS 39 is not expected to have any change on initial application of IFRS 9.

The changes in measures arising on initial application of IFRS 9 will be incorporated through an adjustment to the opening reserves and retained earnings position as at 1 January 2018. Although IFRS 9 will be retrospectively applied, the Group is only permitted to restate comparatives if, and only if, it is possible without the use of hindsight. The Group does not consider it possible to restate comparatives for impairment without the use of hindsight.

3. Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group are prepared under the historical cost basis except for certain financial instruments which are measured at fair value. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

(b) Consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- Has power over an investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power over the investee to affect the amount of the investor's returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- The size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Group, other vote holders and other parties;
- Rights raising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS39: Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(c) 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 recognised 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 financial position 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 either 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 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 (i.e. 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 months of the loan becoming past due, depending on the 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 income statement.

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

(d) 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 and liabilities are as per Note 3(c).

i) 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.

ii) 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.

iii) 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.

iv) 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.

v) Ijara
Ijara financing is a finance lease agreement whereby the Group (lessor) leases an asset based on the customer's

(lessee) request and promise to lease the assets for a specific period in lieu of rental instalments. Ijara ends in transferring the ownership of the asset to the lessee at the end of the lease inclusive of the risks and rewards incident to an ownership of the leased assets. Ijara assets are stated at amounts equal to the net investment outstanding in the lease including the income earned thereon less impairment provisions.

(e) Business combination and goodwill

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 and IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit and loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in consolidated statement of comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising of an acquisition of a business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit might be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in the subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(f) Financial instruments

Financial assets are classified into specific categories: financial assets as fair value through profit or loss, held to maturity, available for sale and loans and receivables.

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities held for trading) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities held for trading are recognized immediately in the consolidated income statement.

(g) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Debt instruments, including loans and advances and Islamic financing and investments products, are measured at amortised cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated income statement.

Impairment of financial assets

Financial assets, other than those carried at fair value through profit or loss, are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- Significant financial difficulty of the issuer or counterparty;
- Breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- The disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances and due from banks, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of loans and advances measured at amortised costs are assessed by the Group as per Note 3(c) to the consolidated financial statements.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(h) Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in the consolidated income statement.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

(i) Investment securities

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

Held-for-trading securities: Investment securities held at fair value through profit and loss are those which are acquired principally for the purpose of trading with the objective of generating profit.

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 sale is due to significant deterioration 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 advances, (b) held-to-maturity investments.

Regular purchases and sales of financial assets at held-to-maturity and available-for-sale are recognised on settlement date.

Financial assets, except assets that are held for trading are initially recognised at fair value plus transaction costs. For financial assets acquired for trading, transaction costs are charged to profit and 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 directly in consolidated statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised through the consolidated statement of comprehensive income is recognised in the consolidated income statement.

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

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

Dividends on available-for-sale equity instruments are recognised in the consolidated income statement when the Group's right to receive payment is established.
The Group assesses at each financial position date whether there is objective evidence that a financial asset is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on available-for-sale equity instruments are not reversed through the income statement. Impairment on debt securities classified as available-for-sale and those held to maturity is assessed as outlined in the accounting policy for impairment of loans and advances [Note 3(c)].

(j) Due from/to banks

Amounts due from banks are initially recognized at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amount due from banks is assessed as outlined in the accounting policy for loans and advances [Note 3(c)].

(k) Cash and cash equivalents

In the consolidated 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) Customer acceptances

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset. Acceptances have been considered within the scope of IAS 39 - Financial Instruments: Recognition and Measurement and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

(m) 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. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments are disclosed in Note 31.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on debt securities issued. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate debt securities issued is recognised in the income statement within 'Interest expense'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'Other operating income'. Changes in the fair value of the hedge fixed rate debt securities issued attributable to interest rate risk are recognised in the income statement within 'Interest expense'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

Cash flow hedge

The effective portion of changes in the fair value of the derivatives that are designated and qualify as cash flow hedge is recognized under comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss in the ineffective portion is recognized immediately in profit or loss, and is include in the 'other gains and losses' line item.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the period when the hedge items affects profit or loss, in the same line as the recognized hedge item. However, when the hedged forecast transaction results in the recognition of non-financial asset and non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated from equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset and non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gains and losses recognized in other comprehensive income and accumulated in equity at that time remains and equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When the forecast transaction is expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

(n) Debt securities issued

Debt issued is recognised initially at fair value, net of transaction costs incurred. After initial measurement, debt issued is subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(o) Property and equipment

Land and buildings comprise branches, offices and certain residential premises purchased for occupation of management and staff. Property and equipment is stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other assets is calculated using 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 - 30
Computer equipment and software	4 -15
Furniture, fixtures and equipment	4 - 6
Leasehold improvements	2 - 6
Motor vehicles	2 - 4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income.

(p) Employee benefits

(i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees. 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.

(ii) Defined benefit plan

Provision is made for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law for their periods of service up to the financial position date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The provision arising is disclosed as 'provision for employees' end of service benefits' under other liabilities in the consolidated statement of financial position.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to financial position date. This provision is included in other liabilities.

(q) Fiduciary assets

Assets and the income arising on the Bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognised in accordance with the accounting policy on fees and commission income [Note 3(v)].

(r) Share capital

(i) Share issue costs

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

(ii) Dividends on ordinary shares

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

(s) Provisions and contingent liabilities

Provisions are recognised when the Group 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.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

(t) Deposits from customers

Deposits from customers are recognised initially at fair value, net of transaction costs incurred. Deposits from customers are subsequently carried at amortised cost using the effective interest method.

(u) Foreign currencies

Items included in the consolidated financial statements of the Group are measured using UAE Dirhams which is the currency of the primary economic environment in which the Group operates ('functional currency'). The consolidated financial statements are presented in UAE Dirhams. 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 re-translated into UAE Dirhams at the rates ruling at the consolidated statement of financial position date. Any resultant gains or losses are accounted for in the consolidated income statement other than for items presented in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(v) Interest income and expense

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

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

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

(w) Fee and commission income

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

(x) Offsetting financial instruments

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

(y) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-maker. The Chief Operating Decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8, the Group has the following business segments: retail banking, Wholesale banking, business banking, treasury and Insurance business.

(z) Intangible assets

Intangible assets acquired in a business combination are measured on initial recognition at cost, which is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

(i) License

The license represents the right to conduct insurance operations, which is granted by the relevant insurance regulator. This license is assessed as having an indefinite useful life and included in goodwill.

(ii) Customer relationships

The value of customer relationships represents the value of future cash flows expected from renewals and the cross-selling of new products to customers known and identified at the time of the acquisition and will be amortised on a straight line basis over the estimated useful life which is 4 years.

(aa) Insurance contracts

Insurance and reinsurance contracts held

The Group, through its insurance subsidiary RAKNIC, issues contracts that transfer insurance risks in the general insurance category. The general insurance category comprises Casualty, Group Life, Financial Lines, Fire, Marine, Energy and Accident and Health.

The Group writes the following types of insurance contracts:

- Accident insurance
- Property insurance
- Motor insurance
- Fire insurance
- Casualty insurance
- Medical insurance
- Marine insurance
- Engineering insurance
- Group life insurance

Provision is made for premium deficiency arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

Insurance and other receivables

Insurance and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The carrying amount of the receivable is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within general and administration expenses. When a receivable is uncollectible, it is written off against the allowance account for that receivable. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the consolidated income statement.

Deferred acquisition costs

The costs attributable to the acquisition of new business for insurance contracts and renewing existing contracts are capitalised as an intangible asset under Deferred Acquisition Costs (DAC). All other costs are recognised as expenses when incurred. DAC are subsequently amortised over the life of the contracts as premium is earned.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

(i) Classification

The Group issues contracts that transfer either insurance risk or both insurance and financial risks.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Group to pay significant additional benefits due to happening of the insured event compared to its non-happening.

Insurance contracts may also transfer some financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts where insurance risk is not significant are classified as investment contracts.

Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

(ii) Recognition and measurement

Premiums

Gross premiums written reflect business incepted during the year, and exclude any fees and other amounts collected with and calculated based on premiums. These are recognised when underwriting process is complete and policies are issued.

The earned position of premium is recognised as an income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below.

Unearned premium provision

Unearned premiums are computed using statistical models to spread premium written evenly over period of coverage and are at least equal to the minimum stipulated by the UAE Insurance Law.

(iii) Claims

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expense reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the financial statements of the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. Provision is also made for any claims incurred but not reported ("IBNR") at the date of statement of financial position on the basis of management estimates.

(iv) Liability adequacy test

At the end of each reporting period, the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in profit or loss and an unexpired risk provision is created.

Provision is made for premium deficiency arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

(v) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in statement of profit or loss in the period in which they are incurred.

Profit commission in respect of reinsurance contracts is recognised on an accrual basis.

(vi) Deferred acquisition cost

For general insurance contracts, the deferred acquisition cost asset represents the position of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the reporting date.

(vii) Insurance receivables and payables

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

(viii) Insurance contract provision and reinsurance assets

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the statement of financial position date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the consolidated statement of financial position date.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

4. Cash and balances with UAE Central Bank

	2017	2016
	AED'000	AED'000
Cash in hand	1,025,962	819,539
Balances with the UAE Central Bank	193,577	243,677
Statutory deposit with the UAE Central Bank	3,021,027	3,017,800
Certificates of deposit with the UAE Central Bank	500,000	350,000
	4,740,566	**4,431,016**

Statutory deposits maintained with the UAE Central Bank represent deposits at stipulated percentages of the Bank's demand, savings, time and other deposits. These are only available for day-to-day operations under certain specified conditions and cannot be withdrawn without the Central Bank's prior approval.

Cash in hand, balances and statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry an interest rate of 1.25% (2016: 0.62% to 0.72%) per annum.

5. Due from other banks

	2017	2016
	AED'000	AED'000
Placements with other banks	944,523	885,923
Demand deposits	277,161	270,310
Banker's acceptances	1,806,712	964,000
Syndicated loans	701,022	439,437
Other	69,821	69,560
	3,799,239	**2,629,230**

The below represents deposits and balances due from:

	2017	2016
	AED'000	AED'000
Banks in UAE	220,742	792,384
Banks outside UAE	3,578,497	1,836,846
	3,799,239	**2,629,230**

6. Loans and advances, net

	2017	2016
	AED'000	AED'000
(a) Loans and advances		
Retail banking loans	18,828,884	17,749,598
Wholesale banking loans	6,477,586	4,535,342
Business banking loans	7,928,894	7,494,358
Total loans and advances [Note 6(b)]	33,235,364	29,779,298
Provision for impairment [Note 6(c)]	(995,171)	(1,053,429)
Net loans and advances	**32,240,193**	**28,725,869**
(b) Analysis of loans and advances		
Personal loans	6,381,452	5,897,790
Mortgage loans	4,625,072	4,419,270
Credit cards	3,551,725	3,542,744
Auto loans	2,336,306	2,645,465
Business banking RAK finance loans	4,684,424	4,995,594
Business banking other loans	3,244,470	2,498,764
Wholesale banking loans	6,477,586	4,535,342
Other retail loans	1,934,329	1,244,329
Total loans and advances	**33,235,364**	**29,779,298**
(c) Provision for impairment		
Balance at the beginning of the year	1,053,429	744,600
Impairment allowance for the year	1,685,001	1,877,770
Written-off during the year	(1,743,259)	(1,568,941)
Balance at the end of the year	**995,171**	**1,053,429**
(d) Provision for impairment of loans and advances, net		
Impairment allowance for the year	1,685,001	1,877,770
Net recovery during the year	(132,038)	(70,056)
	1,552,963	**1,807,714**

Net recovery mainly represents amounts subsequently recovered from fully written-off loans.

	2017	2016
	AED'000	AED'000
(e) Impairment loans and advances provision coverage		
Aggregate impaired loans	1,334,090	1,249,458
Provision held	995,171	1,053,429
Coverage ratio	74.60%	84.31%

The ratio of provision held to aggregate impaired loans (coverage ratio) does not take into account collateral available, including cash, property and other realisable assets. For computation of the above ratio, the Group has considered total impairment provision including the portfolio provision for risk inherent in the Group's portfolio.

(f) Islamic financing assets

The below table summarises the Islamic financing assets that are part of loans and advances above:

	2017	2016
	AED'000	AED'000
i) Islamic financing assets		
Islamic retail financing assets	2,941,075	3,155,268
Islamic business banking assets	1,143,475	926,215
Islamic wholesale banking assets	344,451	203,555
Total Islamic financing assets	4,429,001	4,285,038
Provision for impairment	(123,835)	(145,234)
	4,305,166	**4,139,804**
ii) Analysis of Islamic financing assets		
Islamic salam personal finance	1,529,271	1,508,935
Islamic auto murabaha	643,196	915,370
Islamic business banking finance	1,143,475	926,215
Islamic Ijara property finance	647,941	587,572
Islamic credit cards	119,676	141,066
Islamic wholesale banking	344,451	203,555
Islamic finance - other	991	2,325
	4,429,001	**4,285,038**

7. Investment securities

a) Investments

	2017	2016
	AED'000	AED'000
Securities available-for-sale		
Quoted equity securities	61,068	7,279
Unquoted equity securities	1,694	107
Quoted funds	20,853	20,637
Unquoted funds	19,153	-
Quoted debt securities*	5,185,470	4,546,570
Unquoted debt securities	276,237	219,100
	5,564,475	4,793,693
Securities held-for-trading		
Quoted debt securities	-	12,804
Quoted mutual funds	4,274	4,185
	4,274	16,989
Total investment securities	**5,568,749**	**4,810,682**

*As at 31 December 2017, quoted debt securities with book value of AED 1,324 million (31 December 2016: AED 583 million) have been given as collateral against repo borrowings of AED 1,248 million (31 December 2016: AED 546 million) [Note 12].

b) The composition of the investment portfolio by category is as follows:

	2017	2016
	AED'000	AED'000
Federal and local Government - UAE	343,081	522,206
Government related entity - UAE	1,063,428	989,427
Government - GCC	1,001,112	603,952
Government - other	332,519	85,437
Banks and financial institutions - UAE	443,836	661,609
Banks and financial institutions - GCC	226,782	152,992
Banks and financial institutions - other	1,034,342	1,199,636
Public limited companies - UAE	441,310	291,867
Public limited companies - GCC	276,158	177,091
Public limited companies - other	299,139	94,257
Total debt securities	**5,461,707**	**4,778,474**
Quoted equity securities	61,068	7,279
Quoted funds	25,127	24,822
Unquoted funds	19,153	-
Unquoted equity securities	1,694	107
Total investment securities	**5,568,749**	**4,810,682**

c) Movement in investment securities

	Securities available for sale	Securities held for trading	Securities held to maturity	Total
	AED'000	AED'000	AED'000	AED'000
At 1 January 2017	**4,793,693**	**16,989**	**-**	**4,810,682**
Purchases	**5,733,040**	**1,673,811**	**-**	**7,406,851**
Disposal/maturities	**(5,030,708)**	**(1,691,904)**	**-**	**(6,722,612)**
Net fair value loss on revaluation	**(13,612)**	**-**	**-**	**(13,612)**
Impairment/net changes in fair value through profit/(loss)	**(7,343)**	**81**		**(7,262)**
Amortization of discount	**3,142**	**-**	**-**	**3,142**
Profit/ (loss) on sale	**86,263**	**5,297**	**-**	**91,560**
At 31 December 2017	**5,564,475**	**4,274**	**-**	**5,568,749**
At 1 January 2016	116,637	3,966	3,994,469	4,115,072
Portfolio transfer	3,994,469	-	(3,994,469)	-
Purchases	2,708,675	1,192,521	-	3,901,196
Disposal/maturities	(2,146,304)	(1,183,944)	-	(3,330,248)
Net fair value gain on revaluation	39,577	-	-	39,577
Impairment/net changes in fair value through profit/(loss)	(25,611)	227	-	(25,384)
Amortization of premium	(14,878)	-	-	(14,878)
Profit/(loss) on sale	121,128	4,219	-	125,347
At 31 December 2016	4,793,693	16,989	-	4,810,682

8. Insurance contract assets and receivables

	2017	2016
	AED'000	AED'000
Reinsurance contract assets		
Claims reported unsettled	85,532	77,826
Claims incurred but not reported	21,825	14,917
Deferred reinsurance premium and commission	79,772	37,064
Total reinsurance contract assets	**187,129**	**129,807**
Insurance related receivables		
Premium receivables	227,372	202,456
Reinsurance companies	33,810	26,356
Insurance agents and brokers	939	835
Gross insurance related receivables	262,121	229,647
Provision for doubtful receivables	(24,353)	(18,495)
Net insurance related receivables	237,768	211,152
Insurance contract assets and receivables	**424,897**	**340,959**

9. Other assets

	2017	2016
	AED'000	AED'000
Interest receivable	222,853	207,088
Profit receivable on Islamic financing assets	38,391	34,012
Prepayments and deposits	84,350	105,928
Interest rate swaps and other derivatives (Note 31)	25,540	17,292
Insurance related receivables and assets	45,383	62,087
Other	129,418	49,518
	545,935	**475,925**

10. Goodwill and other intangible assets

	Goodwill including insurance license	Intangibles-customer relationship	Goodwill and other intangible assets
	AED'000	AED'000	AED'000
Cost			
At 1 January 2016	166,386	12,835	179,221
At 31 December 2016	166,386	12,835	179,221
At 31 December 2017	**166,386**	**12,835**	**179,221**
Accumulated amortization			
At 1 January 2016	-	(1,872)	(1,872)
Charge for the year	-	(3,208)	(3,208)
At 31 December 2016	-	(5,080)	(5,080)
Charge for the year	-	(3,209)	(3,209)
At 31 December 2017	**-**	**(8,289)**	**(8,289)**
Net book value			
At 31 December 2017	**166,386**	**4,546**	**170,932**
At 31 December 2016	166,386	7,755	174,141

For the purpose of impairment assessment, goodwill is allocated to the Group's insurance business. Goodwill is tested for impairment annually or at a more frequent basis when there is evidence that the fair value of the unit is less than the carrying value. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Management has carried out an impairment test for goodwill at the year end and has concluded that no impairment has taken place. For this purpose, the recoverable amount of each cash generating unit has been determined based on a value-in-use calculation using cash flow projections, based on financial budgets approved by senior management, covering a five year period. Cash flows beyond the five-year period are extrapolated using a growth rate, which management believes approximates the long term growth rate for the industry in which the cash generating unit operates.

11. Property and equipment

	Land and buildings	Leasehold improvements	Other fixed assets	Capital work-in-progress	Total assets
	AED'000	AED'000	AED'000	AED'000	AED'000
Cost					
At 1 January 2016	688,107	98,769	834,476	20,520	1,641,872
Additions	973	-	18,003	66,062	85,038
Transfers	17,113	4,806	45,443	(67,362)	-
Disposals	(570)	-	(3,430)	-	(4,000)
At 31 December 2016	705,623	103,575	894,492	19,220	1,722,910
Additions	-	91	25,480	75,613	101,184
Transfers	5,050	4,808	58,027	(67,885)	-
Disposals	-	(38)	(18,055)	-	(18,093)
At 31 December 2017	**710,673**	**108,436**	**959,944**	**26,948**	**1,806,001**
Accumulated depreciation					
At 1 January 2016	138,782	82,869	522,771	-	744,422
Charge for the year	26,218	8,586	74,104	-	108,908
Disposals	(422)	-	(2,842)	-	(3,264)
At 31 December 2016	164,578	91,455	594,033	-	850,066
Charge for the year	24,878	6,021	67,294	-	98,193
Disposals	-	(38)	(17,560)	-	(17,598)
At 31 December 2017	**189,456**	**97,438**	**643,767**	**-**	**930,661**
Net book value					
At 31 December 2017	**521,217**	**10,998**	**316,177**	**26,948**	**875,340**
At 31 December 2016	541,045	12,120	300,459	19,220	872,844

Other fixed assets include computer equipment, furniture and fixtures, equipment and motor vehicles. Capital work in progress mainly comprises the costs pertaining to various system enhancements and set up costs for branches/offices.

12. Due to other banks

	2017	2016
	AED'000	AED'000
Term borrowings	1,351,629	1,014,261
Repurchase agreements (Note 7)	1,247,673	545,723
Demand deposits	164,897	1,893
	2,764,199	**1,561,877**

13. Deposits from customers

	2017	2016
	AED'000	AED'000
Time deposits	11,249,257	8,178,941
Current accounts	16,723,047	16,426,022
Saving deposits	3,103,402	3,560,687
Call deposits	1,100,168	1,232,535
	32,175,874	**29,398,185**

Time deposits include AED 1,544 million (2016: AED 1,456 million) held by the Bank as cash collateral for loans and advances granted to customers.

The below table summarises the Islamic deposits of customers that are part of deposits from customers above:

	2017	2016
	AED'000	AED'000
Wakala deposits	779,242	1,025,959
Mudaraba term investment deposits	15,275	42,468
Murabaha term deposit	736,063	7,350
Qard-E-Hassan - current accounts	793,969	559,917
Mudaraba - current ac-counts	698,753	924,682
Mudaraba - saving accounts	162,494	133,730
Mudaraba - call deposits	27,816	38,372
	3,213,612	**2,732,478**

14. Debt securities in issue and syndicated borrowing

	2017	2016
	AED'000	AED'000
USD 500 million medium term note issued at discount in June 2014	1,832,325	1,829,618
USD 300 million medium term note issued at premium in March 2015	1,105,376	1,107,636
USD 50 million floating rate notes issued at discount in July 2017	182,669	-
USD 350 million syndicated borrowing	1,285,550	-
Less: Own investment in debt securities issued	(211,720)	(210,859)
Less: Debt securities issue costs	(4,597)	(7,545)
Less: Syndicated loan issue costs	(9,735)	-
Fair value adjustment on hedged debt securities in issue	(10,566)	11,222
	4,169,302	**2,730,072**

The Group issued USD 500 million Euro Medium Term Note (EMTN) in June 2014 under its USD 1 billion EMTN programme through its subsidiary RAK Funding Cayman Limited. The initial tranche was issued at a discounted rate of 99.275%. In March 2015, a second tranche of USD 300 million were issued under this programme at a premium rate of 100.875%. These EMTN's mature in 2019 and carry a fixed interest rate of 3.25% per annum which is payable half-yearly in arrears. In July 2017, the Group issued tranche 1 of series 2 of USD 50 million which matures in 2021. This carry a floating rate of USD 3 months LIBOR +1.5% per annum.

During the year, the Group arranged a three year syndicated borrowing of USD 350 million maturing in 2020. This syndicated borrowing carries an interest rate of 3 months libor plus a margin of 1.55% per annum.

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities:

	1 January 2017	Financing cash flows	Non cash changes	31 December 2017
	AED'000	AED'000	AED'000	AED'000
Euro medium term notes	2,730,072	-	(19,254)	2,710,818
Floating rate notes	-	182,670	-	182,670
Syndicated borrowing	-	1,275,814	-	1,275,814
Total liabilities from financing activities	**2,730,072**	**1,458,484**	**(19,254)**	**4,169,302**

15. Insurance contract liabilities and payables

	2017	2016
	AED'000	AED'000
Total insurance related payables		
Claims reported unsettled, net	117,058	114,618
Claims incurred but not reported	51,171	45,814
Unearned premiums	190,862	178,224
Total insurance contract liabilities	**359,091**	**338,656**
Insurance related payables		
Creditors	73,073	68,733
Reinsurance payables	58,064	36,506
Commission payables	26,763	21,931
Total insurance related payables	**157,900**	**127,170**
Insurance contract liabilities and payables	**516,991**	**465,826**

16. Other liabilities

	2017	2016
	AED'000	AED'000
Interest payable	84,361	50,081
Profit distributable on Islamic deposits	9,489	21,900
Accrued expenses	122,065	109,789
Managers cheques issued	214,069	131,296
Provision for employees' end-of-service benefits (Note 29)	107,481	97,808
Derivatives (Note 31)	23,236	5,390
Mortgage payables and liabilities	13,399	22,769
Credit card payables and liabilities	23,812	90,562
Asset based finance payables and liabilities	39,855	19,991
Insurance related payables and liabilities	35,248	39,354
Other	198,026	135,387
	871,041	**724,327**

17. Share capital and dividend

At 31 December 2017, the authorised, issued and fully paid share capital of the Bank comprised: 1,676 million shares of AED 1 each (31 December 2016: 1,676 million shares of AED 1 each).

The Board of Directors has proposed 30% cash dividend at their meeting held on 29 January 2018.

At the meeting held on 5 April 2017, the shareholders of the Bank approved a cash dividend of 30% amounting to AED 503 million of the issued and paid up capital in respect of the year ended 31 December 2016 (2015: 50% cash dividend amounting to AED 838 million). Further, AED 4 million as Directors' remuneration was also approved.

18. Legal reserve

In accordance with the UAE Federal Law No (2) of 2015 and Articles of Association of the Bank, 10% of the Bank's 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. Since the legal reserve of the Bank is equal to 50% of Bank's issued capital, profit was not appropriated to legal reserve during the year. This reserve is not available for distribution. Additionally, the subsidiaries of the Bank also appropriate their profit to a legal reserve which is added to the Bank's legal reserve.

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 not available for distribution. Share premium was transferred to legal reserve in 2016 according to the UAE Federal Law No (2) of 2015.

19. Other reserves

	Voluntary reserve	General banking risk reserve	Credit risk reserve	Regulatory credit risk reserve	Treasury stock elimination	Fair value reserve	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2016	336,717	1,000,000	1,250,000	377,000	(2,397)	(11,204)	2,950,116
Changes during the year	491	-	-	44,000	-	36,602	81,093
At 31 December 2016	337,208	1,000,000	1,250,000	421,000	(2,397)	25,398	3,031,209
Changes during the year	-	-	-	71,000	2,397	(15,242)	58,155
At 31 December 2017	**337,208**	**1,000,000**	**1,250,000**	**492,000**	**-**	**10,156**	**3,089,364**

In accordance with the Articles of Association of the Bank, 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. Since the voluntary reserve of the Bank is equal to 20% of Bank's issued capital, profit was not appropriated to voluntary reserve during the year. Additionally, the subsidiaries of the Bank also appropriate their profit to such reserve which is added to the Bank's voluntary reserve. This reserve is available for distribution.

The Bank maintains a general banking risk reserve to address the risks inherent in the Bank's operating environment. Contributions to this reserve are made at the discretion of the Directors. This reserve is available for distribution.

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. This reserve is available for distribution.

The Bank has a non-distributable special reserve titled as 'Regulatory Credit Risk Reserve' and this reserve is maintained at least at a level of 1.5% of the credit risk weighted assets at the end of each financial year, as instructed by the UAE Central Bank.

Treasury stock elimination amount represented the shares of the National Bank of Ras Al-Khaimah (P.S.C.) owned by RAK National Insurance Company P.S.C. which were sold during the year.

Fair value reserve pertains to the revaluation of the Group's available for sale investments and cash flow hedges taken to other comprehensive income.

20. Non-controlling interests

	Year ended 31 December 2017	Year ended 31 December 2016
	AED'000	AED'000
Balance at the beginning of the year	43,465	38,196
Profit for the year	10,043	3,436
Dividends paid	(2,284)	(1,142)
Change in other comprehensive income for the year	(115)	2,975
Balance at the end of the year	**51,109**	**43,465**

21. Interest income and interest expense

	2017	2016
	AED'000	AED'000
Interest income		
Personal loans	338,852	338,190
Mortgage loans	160,829	157,536
Credit cards	714,757	754,885
Auto loans	108,426	129,081
Business banking RAK finance loans	687,800	773,506
Wholesale banking loans	203,749	117,725
Business banking loans	247,013	239,571
Other retail loans	47,389	36,691
Investment securities	189,484	178,247
Deposits with the U.A.E. Central Bank	4,475	4,091
Other banks	80,594	29,351
	2,783,368	**2,758,874**
Interest expense		
Deposits from customers	240,173	196,515
Debt securities issued and syndicated loans	88,248	62,544
Borrowings from other banks	31,535	17,735
	359,956	**276,794**

22. Income from Islamic financing and distribution to depositors

	2017	2016
	AED'000	AED'000
Income from Islamic financing		
Islamic salam personal finance	105,112	125,621
Islamic auto Murabaha	52,128	73,210
Islamic business banking finance	141,308	159,424
Islamic wholesale banking finance	11,908	911
Islamic ijara property finance	28,569	20,610
	339,025	**379,776**
Distribution to depositors		
Distribution of profit on Islamic term investment deposits	34,728	29,117
Distribution of profit on Islamic demand deposits	4,487	7,638
	39,215	**36,755**

23. Net fees and commission income

	2017	2016
	AED'000	AED'000
Personal loans	36,307	23,566
Mortgage loans	23,184	27,776
Credit cards	265,475	267,177
Auto loans	13,867	21,852
RAK Finance business loans	48,848	37,449
Wholesale banking	42,543	42,109
Other business banking	115,969	84,019
Fiduciary income	59,415	46,766
Bancassurance	56,850	45,290
Other	54,554	58,998
	717,012	**655,002**

24. Gross insurance underwriting profit

	2017	2016
	AED'000	AED'000
Gross insurance premium	466,015	414,902
Less: insurance premium ceded to reinsurers	(181,313)	(87,728)
Net retained premium	**284,702**	**327,174**
Net change in unearned premium reserve	(1,342)	(11,728)
Net insurance premium	**283,360**	**315,446**
Gross claims incurred	(269,716)	(323,723)
Insurance claims recovered from reinsurers	93,406	99,123
Net claims incurred	**(176,310)**	**(224,600)**
Gross commission earned	12,525	5,194
Less: commission incurred	(44,900)	(40,800)
Net commission incurred	**(32,375)**	**(35,606)**
Gross underwriting profit	**74,675**	**55,240**

25. Investment income

	2017	2016
	AED'000	AED'000
Dividend income	4,088	1,742
Net gain on disposal of investments	91,560	125,347
Fair value loss, net	(7,757)	(784)
	87,891	**126,305**

26. Operating expenses

	2017	2016
	AED'000	AED'000
Staff costs (Note 28)	589,232	546,331
Occupancy costs	104,054	98,679
Marketing expenses	23,195	30,487
Depreciation and amortization	101,402	112,116
Communication costs	41,899	38,466
Legal and collections charges	64,096	27,415
Computer expenses	86,990	77,813
Outsourced staff costs	330,977	345,811
Other	104,535	91,503
	1,446,380	**1,368,621**

27. Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year:

	2017	2016
Profit for the year (AED'000) (attributed to owners of the Bank)	800,459	659,542
Weighted average number of shares in issue (in 000's)	1,676,245	1,676,245
Basic earnings per share (AED)	0.48	0.39

There were no potentially dilutive shares as at 31 December 2017 and 2016.

28. Staff costs

	2017	2016
	AED'000	AED'000
Salaries, allowances and bonus	546,708	500,801
Pension	9,387	9,522
End-of-service benefits	12,496	16,005
Other	20,641	20,003
	589,232	**546,331**

29. Provision for employees' end of service indemnity

	2017	2016
	AED'000	AED'000
Balance at 1 January	97,808	96,051
Charge for the year	13,362	20,898
Payment during the year	(3,689)	(19,141)
	107,481	**97,808**

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2017, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value. Under this method an assessment has been made of an employee's expected service life with the Group and the expected basic salary at the date of leaving the service. Management has assumed average annual increment/promotion costs of 3% (2016: 3%).

30. Contingencies and commitments

	2017	2016
	AED'000	AED'000
Irrevocable commitments to extend credit	533,133	31,788
Letters of guarantee	1,040,287	858,289
Letters of credit	242,803	61,526
Capital commitments and other contingencies	13,519	26,401
	1,829,742	**978,004**

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.

Guarantees commit the Bank to make payment on behalf of customers contingent upon the production of documents or failure of the customer to perform under the terms of the contract. Guarantees include AED 100 million guarantee given by the Bank for its subsidiary RAK Islamic Finance Company.

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. Commitments to extend credit amounting to AED 8,364 million (2016: AED 8,536 million) are revocable at the option of the Bank and not included in the above table.

31. Forward foreign exchange and other derivative contracts

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.

Outstanding forward foreign exchange contracts, interest rate swaps and other derivative contracts at 31 December 2017 and 31 December 2016 are as follows:

	Fair Values		
	Assets	**Liability**	**Notional**
	AED'000	AED'000	AED'000
31 December 2017			
Foreign exchange contracts	**13,065**	**3,023**	**4,838,782**
Interest rate swaps	**2,759**	**12,267**	**3,856,482**
Other derivative contracts	**9,716**	**7,946**	**3,449,561**
Total	**25,540**	**23,236**	
31 December 2016			
Foreign exchange contracts	3,853	3,845	873,776
Interest rate swaps	12,981	536	2,916,406
Other derivative contracts	458	1,009	514,220
Total	17,292	5,390	

32. Cash and cash equivalents

	2017	**2016**
	AED'000	AED'000
Cash in hand and current account with UAE Central Bank	1,219,539	1,063,216
Due from other banks	3,799,239	2,629,230
	5,018,778	**3,692,446**
Less: Due from other banks with original maturity of three months or more	(2,766,580)	(1,550,487)
	2,252,198	**2,141,959**

33. Operating segments

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting to the management, 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 five main business segments:

- Retail banking - incorporating individual customer and certain business current accounts, savings accounts, deposits, credit and debit cards, individual customer loans and mortgages;
- Wholesale banking - incorporating transactions with corporate bodies including government and public bodies and comprising of loans, advances, deposits and trade finance transactions of corporate customers and financial institutions;
- Business banking - incorporating transactions comprising of loans, advances, deposits and trade finance transactions of SME;
- Treasury - incorporating activities of the dealing room, related money market, and foreign exchange transactions and hedging activities with other banks and financial institutions including the UAE Central Bank, none of which constitute a separately reportable segment; and
- Insurance business - incorporating all insurance related transactions of its subsidiary Ras Al Khaimah National Insurance Company PSC.

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 management 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 Bank's funds transfer pricing 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 net profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

The segment information provided to the management for the reportable segments for the period ended 31 December 2017 and 2016 is as follows:

	Retail Banking	Wholesale Banking	Business Banking
	AED'000	AED'000	AED'000
31 December 2017			
Net external interest income	1,295,816	123,885	902,075
Income from Islamic financing net of distribution to depositors	162,141	(101)	137,770
Transfer pricing (expense)/income	(235,666)	20,700	1,994
Net interest income and net income from Islamic financing	**1,222,291**	**144,484**	**1,041,839**
Non-interest income	564,460	49,494	213,617
Operating income	**1,786,751**	**193,978**	**1,255,456**
Operating expense excluding depreciation and amortisation	(801,274)	(34,492)	(183,539)
Depreciation and amortisation	(30,537)	(950)	(1,281)
Total operating expense	**(831,811)**	**(35,442)**	**(184,820)**
Impairment charge, net	(664,990)	(88,918)	(799,055)
Net profit/(loss)	**289,950**	**69,618**	**271,581**
Segment assets	19,648,864	8,889,052	7,766,431
Unallocated assets	-	-	-
Total assets	**19,648,864**	**8,889,052**	**7,766,431**
Segment liabilities	11,495,950	10,373,196	11,868,363
Unallocated liabilities	-	-	-
Total liabilities	**11,495,950**	**10,373,196**	**11,868,363**

Treasury and other	Insurance business	Unallocated	Consolidation adjustments	Total
AED'000	AED'000	AED'000	AED'000	AED'000
94,621	7,015	-	-	2,423,412
-	-	-	-	299,810
212,972	-	-	-	-
307,593	**7,015**	**-**	**-**	**2,723,222**
181,203	71,000	-	6,849	1,086,623
488,796	**78,015**	**-**	**6,849**	**3,809,845**
(15,604)	(42,240)	(277,308)	9,479	(1,344,978)
(785)	(3,822)	(60,818)	(3,209)	(101,402)
(16,389)	**(46,062)**	**(338,126)**	**6,270**	**(1,446,380)**
-	-	-	-	(1,552,963)
472,407	**31,953**	**(338,126)**	**13,119**	**810,502**
10,778,747	862,082	-	(324,705)	47,620,471
-	-	916,687	-	916,687
10,778,747	**862,082**	**916,687**	**(324,705)**	**48,537,158**
5,987,871	609,072	-	(171,470)	40,162,982
-	-	505,732	-	505,732
5,987,871	**609,072**	**505,732**	**(171,470)**	**40,668,714**

	Retail Banking	Wholesale Banking	Business Banking
	AED'000	AED'000	AED'000
31 December 2016			
Net external interest income	1,324,786	100,887	963,938
Income from Islamic financing net of distribution to depositors	186,098	911	156,012
Transfer pricing (expense)/income	(66,252)	(8,587)	19,109
Net interest income and net income from Islamic financing	1,444,632	93,211	1,139,059
Non-interest income	554,170	48,718	167,497
Operating income	1,998,802	141,929	1,306,556
Operating expense excluding depreciation and amortisation	(827,336)	(31,280)	(145,490)
Depreciation and amortisation	(29,082)	(993)	(1,718)
Total operating expense	(856,418)	(32,273)	(147,208)
Impairment charge, net	(796,112)	(101,002)	(910,600)
Net profit/(loss)	346,272	8,654	248,748
Segment assets	18,123,636	5,872,005	7,203,275
Unallocated assets	-	-	-
Total assets	18,123,636	5,872,005	7,203,275
Segment liabilities	13,769,223	4,206,822	10,642,302
Unallocated liabilities	-	-	-
Total liabilities	13,769,223	4,206,822	10,642,302

Comparative figures of 31 December 2016 were reclassified between operating segments for some loans. The Group enhanced its transfer pricing methodology as of 1 January 2017 and the transfer pricing income/expense across segments as at 31 December 2017 differs from 31 December 2016.

Treasury and other	Insurance business	Unallocated	Consolidation adjustments	Total
AED'000	AED'000	AED'000	AED'000	AED'000
88,037	4,432	-	-	2,482,080
-	-	-	-	343,021
55,730	-	-	-	-
143,767	4,432	-	-	2,825,101
187,683	65,461	-	(9,317)	1,014,212
331,450	69,893	-	(9,317)	3,839,313
(11,198)	(43,126)	(200,413)	2,338	(1,256,505)
(389)	(3,369)	(73,356)	(3,209)	(112,116)
(11,587)	(46,495)	(273,769)	(871)	(1,368,621)
-	-	-	-	(1,807,714)
319,863	23,398	(273,769)	(10,188)	662,978
9,849,526	718,365	-	(218,600)	41,548,207
-	-	962,022	-	962,022
9,849,526	718,365	962,022	(218,600)	42,510,229
5,469,429	483,516	-	(47,535)	34,523,757
-	-	406,093	-	406,093
5,469,429	483,516	406,093	(47,535)	34,929,850

04 Financial Statements

34. 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 year, 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:

	2017	2016
	AED'000	AED'000
Transactions during the year		
Interest income	464	184
Interest expense	31,160	29,836
Commission income	6,471	124
Directors' and key management personnel's remuneration and other expenses	27,570	20,155
Balances		
Loans and advances:		
- Shareholders and their related companies	114,881	170
- Directors and their related companies	3,271	1,155
- Key management personnel	5,320	4,397
	123,472	**5,722**
Deposits		
- Shareholders and their related companies	2,563,879	2,003,955
- Directors and their related companies	5,757	10,036
- Key management personnel	11,777	5,629
	2,581,413	**2,019,620**
Irrecoverable commitments and contingent liabilities and forward contracts		
- Shareholders and their related companies	235,368	120,975
- Directors and their related companies	43	403
	235,411	**121,378**
Insurance related receivables		
Due from policy holders	13,690	24,154
Insurance related payables		
Due to policy holders	168	294

35. Fiduciary activities

The Bank holds assets in a fiduciary capacity for its customers without recourse. At 31 December 2017, such assets amounted to AED 1,963 million (2016: AED 1,722 million) and are excluded from the consolidated financial statements of the Group.

36. Legal proceedings

The Bank is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Bank's consolidated financial statements if settled unfavourably.

The Bank's subsidiary, RAKNIC in common with other insurance companies, is involved as defendant in a number of legal cases in respect of its underwriting activities. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

37. Comparative figures

No items have been reclassified in the consolidated statement of financial position for the prior year ended 31 December 2016, except for customer acceptances as previously reported under other assets which has been presented as a separate line item in the consolidated statement of financial position.

38. Financial risk management

Risk management review

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

The Group'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 Group 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 the Group's customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Group to suffer a financial loss.

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

The Group's 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, business banking, and wholesale banking assets.

The Chief Credit Officer and team 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 Credit Policy, Product Programs Guidelines, Credit circulars and comply with regulatory norms. The Credit risk management for Retail Loans is managed by the team within the Chief Risk Officer.

The Group 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 Group has a Product Program Guide that sets limits of exposure and lending criteria. The Group also has credit limits that set out the lending and borrowing limits to/from other banks.

The Group 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 Credit Committee and the Board of Directors.

The Group builds, validates and uses Credit Scoring tools that are populated by internally and externally derived historical data, forward looking models and behavioural models to assess counterparty risk on a customer and portfolio level for some of its Retail products.

The Group has in place policies which govern the determination of eligibility of various collaterals including credit protection, to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants. The Group's major collaterals are mortgaged properties, investments, vehicles & other register-able assets.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically, for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

Maximum exposure to credit risk before collateral held or other credit enhancements:

	Maximum exposure	
	2017	**2016**
	AED'000	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from other banks	3,799,239	2,629,230
Loans and advances	32,240,193	28,725,869
Insurance contract assets and receivables	345,125	303,895
Customer acceptances	171,307	49,563
Investment securities	5,568,749	4,810,682
Other assets	369,152	304,204
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other off balance sheet items	1,816,223	951,603
	44,309,988	**37,775,046**

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2017 and 2016 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As can be seen above, the most significant exposures arise from loans and advances to customers (including commitments) and amounts due from banks.

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

- 90% (2016: 88%) of the loans and advances are categorised in the top grades of the Bank's internal grading system.
- Mortgage loans, loan against investments, asset based finance and auto loans, which are backed by collateral together, a significant portion 29% (2016: 31%) of loans and advances.
- 7.5% (2016: 8.6%) of the loans comprise of restructured loans, where the Group has aligned its lending rates to current prevailing market lending rates and extended or modified payment arrangements to manage credit risk. 81% (2016: 82%) of these restructured loans are performing loans.
- The Bank continuously reviews its credit and credit underwriting policies and changes are made based on the Management Information System (MIS) reports and the patterns that emerge from these reports.

A significant portion of investment securities comprise debt instruments that are issued by government, reputable quasi-government organisations and financial institutions.

Loans and advances to customers and amounts due from banks

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

	31 December 2017		31 December 2016	
	Loans and advances to customers	**Amounts Due from banks**	**Loans and advances to customers**	**Amounts Due from banks**
	AED'000	AED'000	AED'000	AED'000
Neither past due nor impaired	29,826,479	3,799,239	26,064,577	2,629,230
Past due but not impaired	2,074,795	-	2,465,263	-
Individually impaired	1,334,090	-	1,249,458	-
Gross	**33,235,364**	**3,799,239**	**29,779,298**	**2,629,230**
Less: allowance for impairment	(995,171)	-	(1,053,429)	-
Net	**32,240,193**	**3,799,239**	**28,725,869**	**2,629,230**
Neither past due nor impaired				
Loans and advances	29,826,479	-	26,064,577	-
Due from banks	-	3,799,239	-	2,629,230
Gross	**29,826,479**	**3,799,239**	**26,064,577**	**2,629,230**

Loans and advances

The Group uses the grading of loans into different buckets in assessing the impairment loss in the Group's loan portfolio. The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

Retail banking loans are graded into buckets according to the number of instalments past due. All loans that are not in default of interest payment and instalment are graded as bucket 0, while loans and advances that are in default of interest payment and instalments are graded upwards from bucket 1 onwards, depending on the number of days past due. The wholesale banking credit rating matrix is used to rate wholesale banking loans under various characteristics. There are 18 categories of performing loans and 3 categories of non-performing loans. These ratings and wholesale banking facilities are reviewed at least once a year, or more frequently as required. Loans and advances are classified as delinquent after 90 days of non-payment of interest and instalments. The credit policy has set internal lending limits for various industry exposures.

Amounts due from banks

The Group held amounts due from banks of AED 3,799 million (2016: AED 2,629 million) which represents its maximum credit exposure on these assets. The balance due from banks includes AED 944.5 million (2016: AED 885.9 million) placements with banks, banker's acceptances of AED 1,807 million (2016: AED 964 million) and syndicated loans of AED 701 million (2016: 439.4 million). Remaining balances due from banks and other financial institutions are held with reputable organisations within and outside UAE, where the risk of default is considered low.

Past due but not impaired

Loans and advances less than 90 days past due are not considered impaired in a collective assessment. Gross amount of loans and advances by class of customers that were past due but not impaired are as follows:

	2017	2016
	AED'000	AED'000
Past due up to 30 days	1,258,736	1,547,283
Past due 30 to 60 days	425,052	500,361
Past due more than 60 days	391,007	417,619
Total	**2,074,795**	**2,465,263**

Individually Impaired

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

	2017	2016
	AED'000	AED'000
Individually impaired loans	1,334,090	1,249,458
Fair value of collateral	(281,437)	(256,018)
Net	**1,052,653**	**993,440**

The total impairment provision for loans and advances is AED 995.2 million (2016: AED 1,053.4 million) of which AED 899.1 million (2016: AED 936.6 million) represents provision in respect of the individually impaired loans and advances and the remaining AED 96.1 million (2016: AED 116.8 million) represents the portfolio provision to reflect the risk inherent in the Group's loan portfolio. AED 281.4 million fair value of collateral shown above represents AED 274 million (2016: AED 250.9 million) fair value of collateral against mortgage loans and AED 7.4 million (2016: AED 5.12 million) against wholesale and business banking loans.

Restructured loans and advances

Restructuring activities include interest rate adjustments, extended payment arrangements and modification of payments. The majority of restructuring activity is undertaken to improve cash flow and is within the terms and conditions of the Group's product programme guideline. These policies are kept under continuous review. The Group has reviewed the entire portfolio and reported only restructured loans with financial difficulties under this note. The group has a full-fledged Collections and Recovery Unit that follow-up with overdue/delinquent customers for regularising the loan/advances. The table below presents loans restructured during the year 2017 and 2016.

Restructured loans during the year:

	2017		2016	
Product	No of Accounts	Loan Amount	No of Accounts	Loan Amount
		AED'000		AED'000
Personal loans	1,275	694,061	1,083	493,716
Mortgage loans	10	19,706	14	40,774
Credit cards	7,826	323,643	4,912	213,355
Auto loans	1,122	91,247	2,042	151,400
Small and medium business banking loans	165	108,100	75	83,663
Wholesale banking loans	20	76,469	21	129,538
RAK finance business loans	716	356,028	1,512	510,154
Total	**11,134**	**1,669,254**	**9,659**	**1,622,600**

The table below presents restructured loan portfolio outstanding as at 31 December:

	2017		2016	
Product	No of Accounts	Loan Amount	No of Accounts	Loan Amount
		AED'000		AED'000
Personal loans	2,209	1,073,681	2,235	1,151,817
Mortgage loans	67	154,258	69	161,743
Credit cards	9,657	317,345	7,329	212,927
Auto loans	2,123	131,790	2,290	163,637
Small and medium business loans	219	132,843	88	91,556
Wholesale banking loans	46	170,678	28	156,260
RAK finance business loans	1,175	526,756	1,874	631,314
Total	**15,496**	**2,507,351**	**13,913**	**2,569,254**

Investment securities

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

The table below presents and analysis of debt securities by rating agency designation at 31 December 2017 and 2016, based on Moody's, Standard and Poor's and Fitch ratings or their equivalent:

	2017	**2016**
	AED'000	AED'000
AA to AA-	610,949	375,187
A+ to A-	829,323	798,801
BBB+ to BBB-	2,229,012	2,058,559
BB+ to BB	395,619	486,764
B+ to B-	697,687	137,537
CCC	18,574	-
Unrated	680,543	921,626
	5,461,707	**4,778,474**

Repossessed collateral

The Group occasionally takes possession of mortgaged property which is held as collateral for loans. During the year 2017, the Group did not acquire of any mortgaged property. The current market value of the property repossessed in year 2015 is AED 4.5 million (31 December 2016 AED 4.8 million). The acquired property is reported under other assets of the Group's balance sheet. The Group had directly auctioned mortgaged properties without taking possession of the property, the realised amount of auctioned properties during the year 2017 was AED 43.6 million (2016 : AED 10.6 million). In the case of retail auto loans and wholesale banking asset based finance where the underlying asset is repossessed as a part of recovery process, these are disposed of in an auction by authorised third parties and the Bank does not carry any such assets in its books.

Concentration of risks of financial assets with credit risk exposure

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

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to limit concentrations of exposures to counterparties, geographies and industries. Identified concentration of credit risk is controlled and managed accordingly.

Geographical risk concentration

The following table breaks down the Group's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2017 and 2016.

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

On balance sheet items:

	UAE	OECD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Due from other banks	220,742	925,317	2,653,180	3,799,239
Loans and advances - net	30,579,295	191,348	1,469,550	32,240,193
Insurance contract assets	314,523	-	30,602	345,125
Customer acceptances	170,290	-	1,017	171,307
Investment securities:				
- Held- for-trade	4,274	-	-	4,274
- Available-for-sale	2,367,766	321,377	2,875,332	5,564,475
Other assets	369,152	-	-	369,152
Total	34,026,042	1,438,042	7,029,681	42,493,765
31 December 2016				
Due from other banks	792,233	636,269	1,200,728	2,629,230
Loans and advances - net	27,658,244	387,821	679,804	28,725,869
Insurance contract assets	303,895	-	-	303,895
Customer acceptances	49,563	-	-	49,563
Investment securities:				
- Held- for-trade	15,208	-	1,781	16,989
- Available-for-sale	2,465,695	325,739	2,002,259	4,793,693
Other assets	304,204	-	-	304,204
Total	31,589,042	1,349,829	3,884,572	36,823,443

Off balance sheet items:

	UAE	OECD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Credit commitments	531,959	-	1,174	533,133
Letter of credits and guarantees	1,102,234	24,992	155,864	1,283,090
	1,634,193	**24,992**	**157,038**	**1,816,223**
31 December 2016				
Credit commitments	30,614	-	1,174	31,788
Letter of credits and guarantees	895,888	5,210	18,717	919,815
	926,502	**5,210**	**19,891**	**951,603**

The following table breaks down the Bank's credit exposures on loans and advances, investment securities, due from other banks and off balance sheet items categorised by industry as of 31 December 2017 and 2016:

	On balance sheet items					
	Loans and advances	Investment securities	Due from other banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017						
Agriculture, fishing & related activities	28	-	-	28	156	184
Crude oil, gas, mining & quarrying	7,466	-	-	7,466	192	7,658
Manufacturing	1,228,605	185,036	-	1,413,641	56,064	1,469,705
Electricity & water	12,128	423,891	-	436,019	1,218	437,237
Construction	1,352,700	484,934	-	1,837,634	191,977	2,029,611
Trading	5,090,342	-	-	5,090,342	234,589	5,324,931
Transport, storage & communication	950,300	503,954		1,454,254	16,519	1,470,773
Financial institutions	1,425,051	1,737,474	3,799,239	6,961,764	333,065	7,294,829
Services	3,268,081	556,748	-	3,824,829	205,110	4,029,939
Government	1,841,897	1,676,712	-	3,518,609	214,960	3,733,569
Retail and consumer banking	17,063,595	-	-	17,063,595	562,373	17,625,968
Total exposures	**32,240,193**	**5,568,749**	**3,799,239**	**41,608,181**	**1,816,223**	**43,424,404**

	On balance sheet items					
	Loans and advances	Investment securities	Due from other banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2016						
Agriculture, fishing & related activities	67	-	-	67	156	223
Crude oil, gas, mining & quarrying	7,399	-	-	7,399	116,160	123,559
Manufacturing	1,345,692	20,192	-	1,365,884	42,070	1,407,954
Electricity & water	4,637	558,445	-	563,082	1,215	564,297
Construction	1,118,709	325,690	-	1,444,399	141,528	1,585,927
Trading	5,385,264	-	-	5,385,264	183,316	5,568,580
Transport, storage & communication	1,472,200	389,103	-	1,861,303	19,764	1,881,067
Financial Institutions	1,350,156	2,144,273	2,629,230	6,123,659	108,233	6,231,892
Services	3,281,408	161,384	-	3,442,792	280,509	3,723,301
Government	-	1,211,595	-	1,211,595	12,276	1,223,871
Retail and consumer banking	14,760,337	-	-	14,760,337	46,376	14,806,713
Total exposures	28,725,869	4,810,682	2,629,230	36,165,781	951,603	37,117,384

Individually impaired loans by industry

The breakdown of the gross amount of individually impaired loans and advances by industry is as follows:

	Less than 90 days	Overdue above 90 days	Total	Specific provision
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Mining and quarrying	676	65	741	188
Manufacturing	28,884	99,659	128,543	35,455
Electricity, Gas and Water	34	657	691	691
Construction and real estate	9,385	36,424	45,809	38,306
Trading	110,643	287,443	398,086	338,388
Transport, storage & communication	39,543	43,126	82,669	56,890
Services	12,881	119,827	132,708	122,676
Retail and consumer banking	66,385	478,458	544,843	306,459
Total impaired loans	**268,431**	**1,065,659**	**1,334,090**	**899,053**
31 December 2016				
Manufacturing	347	48,271	48,618	27,683
Construction and real estate	1,891	54,984	56,875	46,351
Trading	10,521	456,726	467,247	411,634
Transport, storage & communication	1,485	54,368	55,853	47,918
Services	10,654	124,939	135,593	119,382
Retail and consumer banking	47,059	438,213	485,272	283,660
Total impaired loans	**71,957**	**1,177,501**	**1,249,458**	**936,628**

Market risk

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

The Asset and Liability Committee (ALCO) is chaired by the Chief Executive Officer and comprises the Divisional heads of Finance, Treasury, Risk, Operations, Wholesale Banking, Business Banking and Retail Banking. It meets on a regular basis to monitor and manage market risk.

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

Further the Group does not enter into derivative trades for speculative purposes. The exposures to derivatives includes forward exchange contracts, Option Contracts and Interest Rate Swaps which are entered to meet customer needs and covered back to back in the interbank market. Further Bank has executed some interest rate swaps and a Cross Currency Swap for economic hedging purposes.

Group's proprietary Investments are managed according to the group's Investments Policy approved by the Investment Committee.

Price risk

The Group is exposed to price risk as a result of its holdings in debt securities classified as available-for-sale investment securities. The fair values of investments quoted in active markets are based on current bid prices. Senior Management meets regularly to discuss the return on investment and concentration across the Group's investment portfolio and manages the risk through diversification in terms of Counterparty, Country and Industry.

The sensitivity analysis for price risk illustrates how changes in the fair value of securities held by the Group will fluctuate because of changes to market prices whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market.

Interest rate risk

Cash flow interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Group monitors interest rate risk through the use of a detailed Interest Reprice gap report and Net Interest Income (NII) and Economic Value of Equity (EVE) based sensitivity analysis to analyse the impact of anticipated movements in interest rates. The Group has a Risk Appetite limits for Interest risk shocks on the Group's Net Interest Income.

Financial assets that are not subject to any interest-rate risk mainly comprise investments in Subsidiaries, Equity investments, cash, balances with central banks excluding certificates of deposit.

The Group 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 Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates:

	Less than 3 months	3 months to 1 year	1 - 3 years	3 - 5 years	Over 5 years	Non-interest bearing	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 31 December 2017							
Assets							
Cash and balances with the UAE Central Bank	500,000	-	-	-	-	4,240,566	4,740,566
Due from other banks	2,236,602	1,393,217	143,354	25,000	-	1,066	3,799,239
Loans and advances, net	14,440,336	5,715,377	7,198,804	2,384,005	3,687,788	(1,186,117)	32,240,193
Investment securities	171,387	301,029	792,221	1,211,155	2,985,915	107,042	5,568,749
Insurance contract assets and receivables	-	-	-	-	-	424,897	424,897
Goodwill, customer acceptances, property and equipment and other assets	-	-	-	-	-	1,763,514	1,763,514
Total	**17,348,325**	**7,409,623**	**8,134,379**	**3,620,160**	**6,673,703**	**5,350,968**	**48,537,158**
Liabilities and shareholders' equity							
Due to other banks	2,488,235	231,888	44,076	-	-	-	2,764,199
Deposits from customers	16,349,213	6,000,516	679,486	20	-	9,146,639	32,175,874
Debt securities in issue and syndicated borrowing	1,458,431	-	2,710,871	-	-	-	4,169,302
Insurance contract liabilities and payables	-	-	-	-	-	516,991	516,991
Other liabilities and customer acceptances	-	-	-	-	-	1,042,348	1,042,348
Shareholders' equity	-	-	-	-	-	7,868,444	7,868,444
Total	**20,295,879**	**6,232,404**	**3,434,433**	**20**	**-**	**18,574,422**	**48,537,158**
Interest rate sensitivity gap	**(2,947,554)**	**1,177,219**	**4,699,946**	**3,620,140**	**6,673,703**	**(13,223,454)**	**-**

[1] The Group has converted the fixed rate debt securities issued into a floating rate using an interest rate swap.

	Less than 3 months	3 months to 1 year	1 - 3 years	3 - 5 years	Over 5 years	Non-interest bearing	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 31 December 2016							
Assets							
Cash and balances with the UAE Central Bank	150,000	200,000	-	-	-	4,081,016	4,431,016
Due from other banks	1,336,939	893,021	59,400	-	-	339,870	2,629,230
Loans and advances, net	7,140,468	9,245,916	6,804,344	1,724,383	3,810,758	-	28,725,869
Investment securities	224,656	193,721	417,610	1,419,354	2,523,133	32,208	4,810,682
Insurance contract assets and receivables	-	-	-	-	-	340,959	340,959
Goodwill, property and equipment and other assets	-	-	-	-	-	1,572,473	1,572,473
Total	**8,852,063**	**10,532,658**	**7,281,354**	**3,143,737**	**6,333,891**	**6,366,526**	**42,510,229**
Liabilities and shareholders' equity							
Due to other banks	1,149,932	410,052	-	-	-	1,893	1,561,877
Deposits from customers	15,575,040	5,153,053	144,551	-	-	8,525,541	29,398,185
Debt securities in issue	2,730,072	-	-	-	-	-	2,730,072
Insurance contract liabilities and payables	-	-	-	-	-	465,826	465,826
Other liabilities	-	-	-	-	-	773,890	773,890
Shareholders' equity	-	-	-	-	-	7,580,379	7,580,379
Total	**19,455,044**	**5,563,105**	**144,551**	**-**	**-**	**17,347,529**	**42,510,229**
Interest rate sensitivity gap	**(10,602,981)**	**4,969,553**	**7,136,803**	**3,143,737**	**6,333,891**	**(10,981,003)**	**-**

04 Financial Statements

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

	2017	2016
	AED'000	AED'000
Fluctuation in interest rates by 25 bps	29,392	24,015

The interest rate sensitivities set out above are worst case scenarios and employ simplified calculations. They are based on the gap between AED 24,758 million (2016: AED 19,385 million) of interest bearing assets with maturities within one year and AED 35,715 million (2016: AED 25,018 million) of interest bearing liabilities with maturities within one year. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk

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

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Group does maintain a US dollar open position within limits approved by the Bank's ALCO.

At 31 December 2017, the Bank had the following net exposures denominated in AED and foreign currencies:

On balance sheet items:

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Assets				
Cash and balances with the UAE Central Bank	4,186,749	552,793	1,024	4,740,566
Due from other banks	220,448	3,313,430	265,361	3,799,239
Loans and advances	27,228,751	4,819,105	192,337	32,240,193
Insurance contract assets	345,125	-	-	345,125
Investment securities	65,825	5,322,373	180,551	5,568,749
Customer acceptances	18,704	150,221	2,382	171,307
Other assets	288,129	79,588	1,435	369,152
Total assets	**32,353,731**	**14,237,510**	**643,090**	**47,234,331**

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Liabilities				
Due to other banks	255,000	2,367,344	141,855	2,764,199
Deposits from customers	26,550,648	4,976,740	648,486	32,175,874
Debt securities in issue and syndicated borrowing	-	4,169,302	-	4,169,302
Insurance contract liabilities and payables	516,991	-	-	516,991
Customer acceptances	18,704	150,221	2,382	171,307
Other liabilities	661,865	98,605	3,090	763,560
Total liabilities	**28,003,208**	**11,762,212**	**795,813**	**40,561,233**
Net position of financial instruments	**4,350,523**	**2,475,298**	**(152,723)**	**6,673,098**
At 31 December 2016				
Assets				
Cash and balances with the UAE Central Bank	3,887,566	543,029	421	4,431,016
Due from other banks	607,961	1,754,102	267,167	2,629,230
Loans and advances	25,374,851	3,337,058	13,960	28,725,869
Insurance contract assets	303,895		-	303,895
Customer acceptances	14,030	33,638	1,895	49,563
Investment securities	10,505	4,800,177	-	4,810,682
Other assets	221,986	82,102	116	304,204
Total assets	**30,420,794**	**10,550,106**	**283,559**	**41,254,459**
Liabilities				
Due to other banks	483,000	924,042	154,835	1,561,877
Deposits from customers	24,784,746	3,849,562	763,877	29,398,185
Debt securities in issue	-	2,730,072	-	2,730,072
Insurance contract liabilities and payables	465,826	-	-	465,826
Customer acceptances	14,030	33,638	1,895	49,563
Other liabilities	612,302	18,763	1,898	632,963
Total liabilities	**26,359,904**	**7,556,077**	**922,505**	**34,838,486**
Net position of financial instruments	**4,060,890**	**2,994,029**	**(638,946)**	**6,415,973**

The Group 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 net open position at 31 December 2017 and 2016. All currency positions are within limits laid down by ALCO.

Off-balance sheet items:

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Credit commitments	533,133	-	-	533,133
Letter of credit and guarantees	755,699	455,083	72,308	1,283,090
Total	**1,288,832**	**455,083**	**72,308**	**1,816,223**
At 31 December 2016				
Credit commitments	31,788	-	-	31,788
Letter of credit and guarantees	647,336	253,611	18,868	919,815
Total	**679,124**	**253,611**	**18,868**	**951,603**

Foreign exchange contracts:

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Foreign exchange contracts	1,931,553	1,644,654	1,262,575	4,838,782
Interest rate swaps	-	3,856,482	-	3,856,482
Other derivatives	84,541	3,365,020	-	3,449,561
Total	**2,016,094**	**8,866,156**	**1,262,575**	**12,144,825**
At 31 December 2016				
Foreign exchange contracts	9,919	104,746	759,111	873,776
Interest rate swaps	-	2,916,406	-	2,916,406
Other derivatives	-	514,220	-	514,220
Total	**9,919**	**3,535,372**	**759,111**	**4,304,402**

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for customer lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

Liquidity risk management process

The Group manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the Group's internal guidelines mandated by ALCO. Based on the directives of the ALCO, the Treasury manages the liquidity of the Bank.

On the funding side, the Group has a large proportion of its funds in the form of own funds which reduces the requirement for external funds. The Group relies on deposits from its relationship based retail business banking and wholesale banking customers as its primary source of funding and only on a short term basis relies on interbank borrowings to fund its assets. The Group's debt securities typically are issued with maturities of greater than three years. Deposits from customers generally have shorter maturities and a large portion of them are repayable on demand as is endemic to these markets. The short term nature of these deposits increases the Group's liquidity risk and the bank manages this risk through maintaining competitive pricing and constant monitoring of market trends. Also, most of the deposit customers of the Group are relationship based and based on past trends these deposits that they maintain are sticky in nature, thus reducing the liquidity risk to a large extent. The Group does not rely on large ticket deposits and its depositor profile is very diverse leading to a more stable deposit funding. The Group raised USD 500 million under Euro Medium Term Notes under USD 1 billion EMTN programme launched in June 2014. In March 2015 a second tranche of USD 300 million notes were issued under this programme. This helped the Group achieve long term funding. In July 2017, USD 50 million floating rate notes (FRN) were issued which matures on July 2021. Further in October 2017, Group arranged a three year syndicated borrowing of USD 350 million maturing in October 2020.

On the deployment side, the Group maintains a portfolio of highly liquid assets largely made up of balances with the UAE Central Bank, certificates of deposits issued by the Central Bank, inter-bank facilities and investment securities including investments in local government bonds which can be repaid to meet short term liquidity mismatches and be offloaded to meet longer term mismatches. The Central Bank of the U.A.E. has prescribed reserve requirements on deposits ranging between 1% and 14% on time and demand deposits. As a contingency funding plan, the Group evaluates and keeps ready debt financing plans which can be quickly executed if required.

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining years from the reporting date to the contractual cash flow date. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

The Central Bank of the U.A.E. also imposes mandatory 1:1 Loans to Stable Resources Ratio (LSRR) 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 loans to stable resources ratios on a daily basis. The Group on a daily basis also monitors the liquid assets to total assets ratio and the eligible Liquid Asset Ratio (ELAR) and has set up internal management Action Triggers to take suitable corrective actions once the internal thresholds have been reached.

At 31 December 2017, 23.4% (2016: 24.3%) of the Group's total assets was in liquid assets. The LSRR as at 31 December, 2017 stood at 87.79% (2016: 85.45%) which is significantly lower than the maximum requirement of 100%. Similarly, the Eligible Liquid Assets Ratio of the Group stood at 15.0% (2016: 16.9%) as at 31 December 2017, also reflecting a healthy liquidity position.

	Up to 3 months	3 – 12 months	1 – 3 years	3 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017						
Assets						
Cash and balances with the UAE Central Bank	4,740,566	-	-	-	-	4,740,566
Due from other banks	1,940,368	1,517,397	294,436	47,038	-	3,799,239
Loans and advances	6,917,870	5,469,484	8,512,248	3,679,939	7,660,652	32,240,193
Investment securities	278,428	301,029	792,221	1,147,335	3,049,736	5,568,749
Insurance contract assets and receivables	143,427	266,310	14,589	571	-	424,897
Customer acceptances	30,243	141,064	-	-	-	171,307
Goodwill and other intangible assets	-	-	-	-	170,932	170,932
Property and equipment and other assets	541,436	-	-	-	879,839	1,421,275
Total	**14,592,338**	**7,695,284**	**9,613,494**	**4,874,883**	**11,761,159**	**48,537,158**
Liabilities and shareholders' equity						
Due to other banks	2,440,583	279,540	44,076	-	-	2,764,199
Deposit from customers	25,495,852	6,000,515	679,487	20	-	32,175,874
Debts securities in issue and syndicated borrowing	-	-	3,986,685	182,617	-	4,169,302
Insurance contract liabilities and payables	-	516,991	-	-	-	516,991
Customer acceptances	30,243	141,064	-	-	-	171,307
Other liabilities	835,793	35,248	-	-	-	871,041
Shareholders' equity	-	-	-	-	7,868,444	7,868,444
Total	**28,802,471**	**6,973,358**	**4,710,248**	**182,637**	**7,868,444**	**48,537,158**
Net cumulative liquidity gap	(14,210,133)	(13,488,207)	(8,584,96)	(3,892,715)	-	-
At 31 December 2016						
Total assets	12,524,480	7,470,956	8,273,211	4,177,965	10,063,617	42,510,229
Total liabilities and equity	26,327,799	5,727,502	2,874,549	-	7,580,379	42,510,229
Net cumulative liquidity gap	(13,803,319)	(12,059,865)	(6,661,203)	(2,483,238)	-	-

The Group has a large proportion of its liabilities as demand deposits which do not have a fixed maturity. Although behaviourally these deposits are stable, these have been grouped under up to 3 months category in accordance with the UAE Central Bank guideline.

Derivative cash flows

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

The table below analyses the Group's derivative financial instruments grouped into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows related to foreign exchange and derivative contracts:

	Up to 1 month	1 -3 months	3 -12 months	1-5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017						
Foreign exchange contracts and other derivative						
-Outflow	1,078,805	20,206	3,856,863	594,795	28,009	5,578,678
-Inflow	1,079,529	9,765	3,863,234	588,416	29,502	5,570,446
At 31 December 2016						
Foreign exchange contracts and other derivative						
-Outflow	866,838	10,199	31,226	78,738	-	987,001
-Inflow	866,765	3,559	52,613	76,634	-	999,571

Off-balance sheet items:

	No later than 1 year	1-5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Credit commitments	528,303	4,830	-	533,133
Letter of credits and guarantees	1,065,612	216,629	849	1,283,090
Total	**1,593,915**	**221,459**	**849**	**1,816,223**
At 31 December 2016				
Credit commitments	31,788	-	-	31,788
Letter of credits and guarantees	764,737	130,075	25,003	919,815
Total	796,525	130,075	25,003	951,603

Financial instruments

Categories of financial instruments

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39:

	Loans and receivables	Available for sale	Hedging derivatives	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017					
Assets					
Investment securities	-	5,564,475	-	4,274	5,568,749
Derivative financial instruments	-	-	6,111	19,429	25,540
Cash and balances with the UAE central Bank	4,740,566	-	-	-	4,740,566
Due from other banks	3,799,239	-	-	-	3,799,239
Loans and advances	32,240,193	-	-	-	32,240,193
Insurance contract assets and receivables	345,125	-	-	-	345,125
Customer acceptances	171,307	-	-	-	171,307
Other assets	369,152	-	-	-	369,152
Total financial assets	**41,665,582**	**5,564,475**	**6,111**	**23,703**	**47,259,871**

	Financial liabilities at amortised cost	Available for sale	Hedging derivatives	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Liabilities					
Due to other banks	2,764,199	-	-	-	2,764,199
Deposits from customers	32,175,874	-	-	-	32,175,874
Debt securities in issue and syndicated borrowing	4,169,302	-	-	-	4,169,302
Insurance contract liabilities and payables	516,991	-	-	-	516,991
Derivative financial instruments	-	-	13,249	9,987	23,236
Customer acceptances	171,307	-	-	-	171,307
Other liabilities	93,850	-	-	-	93,850
Total financial assets	**39,891,523**	**-**	**13,249**	**9,987**	**39,914,759**

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39:

	Loans and receivables	Available for sale	Hedging derivatives	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2016					
Assets					
Investment securities	-	4,793,693	-	16,989	4,810,682
Derivative financial instruments	-	-	12,928	4,364	17,292
Cash and balances with the UAE central Bank	4,431,016	-	-	-	4,431,016
Due from other banks	2,629,230	-	-	-	2,629,230
Loans and advances	28,725,869	-	-	-	28,725,869
Insurance contract assets and receivables	303,895	-	-	-	303,895
Customer acceptances	49,563	-	-	-	49,563
Other assets	304,204	-	-	-	304,204
Total financial assets	36,443,777	4,793,693	12,928	21,353	41,271,751

	Financial liabilities at amortised cost	Available for sale	Hedging derivatives	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Liabilities					
Due to other banks	1,561,877	-	-	-	1,561,877
Deposits from customers	29,398,185	-	-	-	29,398,185
Debt securities in issue	2,730,072	-	-	-	2,730,072
Insurance contract liabilities and payables	465,826	-	-	-	465,826
Derivative financial instruments	-	-	483	4,907	5,390
Customer acceptances	49,563	-	-	-	49,563
Other liabilities	71,981	-	-	-	71,981
Total financial liabilities	34,277,504	-	483	4,907	34,282,894

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:

Quoted market prices - Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs - Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as forwards foreign exchange contracts which are valued using market standard pricing techniques.

Valuation techniques using significant unobservable inputs - Level 3

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from a transaction in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The table below analyses recurring fair value measurements for assets and liabilities.

The assets measured at fair value as per the hierarchy are disclosed in the table below:

	Quoted market prices Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Asset at fair value				
(Available-for-sale financial assets)				
Investment securities - debt	5,185,470	-	276,237	5,461,707
Investment securities - equity	61,068	-	1,694	62,762
Investment securities - funds	20,853	-	19,153	40,006
Foreign exchange contracts	-	13,065	-	13,065
Derivative financial instruments	-	12,475	-	12,475
(Held-for-trading)	-	-	-	-
Investment mutual fund	4,274	-	-	4,274
	5,271,665	25,540	297,084	5,594,289
Liabilities at fair value				
Foreign exchange contracts	-	3,023	-	3,023
Derivative financial instruments	-	20,213	-	20,213
	-	23,236	-	23,236

There are no transfers between levels during the period.

	Quoted market prices Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2016				
Asset at fair value				
(Available-for-sale financial assets)				
Investment securities - debt	4,546,570	-	219,100	4,765,670
Investment securities - equity	7,279	-	107	7,386
Investment securities - funds	20,637	-	-	20,637
Foreign exchange contracts	-	3,853	-	3,853
Derivative financial instruments	-	13,439	-	13,439
(Held-for-trading)				
Investment mutual fund	4,185	-	-	4,185
Asset at amortised cost				
Investment securities - debt	12,804	-	-	12,804
	4,591,475	17,292	219,207	4,827,974
Liabilities at fair value				
Foreign exchange contracts	-	3,845	-	3,845
Derivative financial instruments	-	1,545	-	1,545
	-	5,390	-	5,390

There is no transfer between levels during the period.

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 31 December 2017, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial assets and liabilities:

	Fair value		Carrying value	
	31 December 2017	31 December 2016	**31 December 2017**	31 December 2016
	AED'000	AED'000	AED'000	AED'000
Assets				
Loans and advances	32,442,793	28,934,906	32,240,193	28,725,869
Investment securities	5,568,749	4,810,682	5,568,749	4,810,682
Cash and balances with the UAE central Bank	4,740,350	4,432,543	4,740,566	4,431,016
Due from other banks	3,786,951	2,616,126	3,799,239	2,629,230
Total financial assets	**46,538,843**	**40,794,257**	**46,348,747**	**40,596,797**
Liabilities				
Due to other banks	2,771,387	1,561,818	2,764,199	1,561,877
Deposits from customers	32,170,844	29,461,531	32,175,874	29,398,185
Debt securities in issue and syndicated borrowings	4,167,772	2,730,072	4,169,302	2,730,072
Total financial liabilities	**39,110,003**	**33,753,421**	**39,109,375**	**33,690,134**

Capital Management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the Central Bank of United Arab Emirates;
- to safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a regular basis as required under Basel II standards.

The Bank's capital management is driven by short and long-term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Bank seeks to optimise returns on capital, and its objective has always been to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

Capital structure and capital adequacy as per Basel II requirement as at 31 December 2017

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 Pillar 1.

	2017	2016
	AED'000	AED'000
Tier 1 capital		
Ordinary share capital	1,676,245	1,676,245
Legal and other reserves	4,040,009	3,939,809
Retained earnings (excludes current year profit)	1,278,986	1,246,414
Total	6,995,240	6,862,468
Deductions		
Investment in RAKNIC	(317,244)	(317,244)
Tier 1 Capital	**6,677,996**	**6,545,224**
Tier 2 capital	**-**	**-**
Total regulatory capital	**6,677,996**	**6,545,224**
Risk weighted assets		
Credit risk	31,940,491	28,012,825
Market risk	18,056	19,663
Operational risk	2,276,146	1,988,195
Total risk weighted assets	**34,234,693**	**30,020,683**
Capital adequacy ratio on regulatory capital (%)	**19.51%**	**21.80%**
Capital adequacy ratio on Tier 1 capital (%)	**19.51%**	**21.80%**

Capital adequacy ratios computed considering the current year profit and without deducting any cash dividend for the year 2017 will be as follows:

	2017	2016
	AED'000	AED'000
Total Tier 1 capital	7,769,383	7,517,307
Total Tier 2 capital	-	-
Total capital base	7,769,383	7,517,307
Investment in RAKNIC	(317,244)	(317,244)
Total regulatory capital	**7,452,139**	**7,200,063**
Capital adequacy ratio on total capital base (%)	**21.77%**	**23.98%**
Capital adequacy ratios on tier 1 capital base (%)	**21.77%**	**23.98%**

The Bank is required to report capital resources and risk-weighted assets under the Basel III from January 2018. Capital structure and capital adequacy as per Basel III requirement as at 31 December 2017 is given below:

	31 December 2017
	AED'000
Tier 1 capital	
Ordinary share capital	1,676,245
Legal and other reserves	4,040,009
Retained earnings	2,053,129
Total	7,769,383
Adjustments	
Less : Fair value reserve adjustment	(19,397)
Less : Expected dividend	(502,874)
Tier 1 Capital	**7,247,112**
Tier 2 capital	**-**
Total regulatory capital	**7,247,112**
Risk weighted assets	
Credit risk	32,733,601
Market risk	18,056
Operational risk	2,276,146
Total risk weighted assets	**35,027,803**
Capital adequacy ratio on regulatory capital	20.69%
Capital adequacy ratio on Tier 1 capital	20.69%

Capital adequacy ratios computed considering the current year profit and without deducting any cash dividend for the year 2017 will be as follows:

	2017
	AED'000
Total Tier 1 capital	7,749,986
Total Tier 2 capital	-
Total capital base	7,749,986
Capital adequacy ratio on total capital base (%)	**22.13%**
Capital adequacy ratios on tier 1 capital base (%)	**22.13%**

39. Insurance risk

The Group accepts insurance risk through its written insurance contracts. The Group is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Group mainly issues short term insurance contracts in connection with property, motor, marine and casualty risks.

Two key elements of the Group's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Underwriting strategy

The Group's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome.

The underwriting strategy is set out by the Group that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Group is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. All general insurance contracts except marine, are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Frequency and amounts of claims

The Group has developed their underwriting strategy to diversify the type of insurance risks accepted and within each of the categories to achieve sufficiently large populations of risk to reduce the variability of the expected outcome. The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly property, motor, casualty, medical and marine risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place.

Property

Property insurance covers a diverse collection of risks and therefore property insurance contracts are subdivided into four risks groups, fire, business interruption, weather damage and theft. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured. The cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruptions are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, flood damage or other weather related incidents.

Motor

Motor insurance contracts are designed to compensate policies holders for damage suffered to vehicles, disability to third parties arising through accidents and fire or theft of their vehicles.

Underwriting limits and guidelines are in place to enforce appropriate risk selection criteria.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

Marine

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

For marine insurance, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered.

Casualty

For casualty class of business, such as workmen's compensation, personal accident, general third party liability and loss of money, the extent of loss or damage and the potential court awards are the main factors that influence the level of claims.

The Group manage these risks through their underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk. Underwriting limits are in place to enforce appropriate risk selections.

The Group proactively manage and pursue early settlement of claims to reduce their exposure to unpredictable developments.

The Group has adequate reinsurance arrangements to protect their financial viability against such claims for all classes of business.

The Group has obtained adequate non-proportionate reinsurance cover for all classes of an amount considered appropriate by the management.

Medical

Medical selection is part of the Group's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

Concentration of insurance risk

The insurance risk arising from insurance contracts is concentrated mainly in the United Arab Emirates.

The geographical risk profile is similar to last year.

Assumptions and sensitivities

Process used to determine the assumptions

The method used by the Group for provision of IBNR takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent accident years.

Reinsurance strategy

The Group reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Group has a Reinsurance department that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The Group buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Group. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to business unit pre-approval and the total expenditure on facultative reinsurance is monitored regularly by reinsurance department.

40. Critical accounting estimates and judgements in applying accounting policies

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. 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. Accounting policies and management judgement for certain items are especially critical for the Group's results and financial situation due to their materiality.

a) Impairment losses on loans and advances and insurance receivables

The Group reviews its loan portfolio and receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group 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 or receivables before the decrease can be identified with an individual loan or receivables 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 takes into account the historical loss experience in estimating future cash flows in assessing the loan portfolio and receivables 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. A +/-5% change in the provision would increase/decrease the profit by AED 50 million (2016: AED 53 million).

b) Classification of and measurement of financial assets and liabilities

The Group classifies financial instruments, or its component parts, at initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of the instruments. The substance of the financial instrument, rather than the legal form, governs its reclassification in the statement of financial position.

The Group determines the classification at initial recognition and, when allowed and appropriate, re-evaluates this designation at every statement of financial position date.

In measuring financial assets and liabilities, some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

c) Fair value measurement

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

d) Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

(i) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

(ii) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

e) Impairment of available for sale investments

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

f) Provision for outstanding claims, whether reported or not

Considerable judgment by the management is required in the estimation of amounts due to the contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the date of statement of financial position. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

g) Useful lives of property and equipment

The management determines the useful lives of property and equipment and the related depreciation charge. The depreciation charge for the year will change significantly if the actual life is different from the estimated useful life of the asset. The review carried out by management in the current year did not indicate any necessity for changes in the useful lives of property and equipment.

h) Impairment of goodwill

The calculation of value-in-use is sensitive to the following assumptions:

(i) Growth rate

Growth rates are based on the management's assessment of the market share having regard to the forecasted growth and demand for the products offered. Growth rate of 3% per annum have been applied in the calculation.

(ii) Profit margins

Profit margins are based on the management's assessment of achieving a stabilized level of performance based on the approved business plan of the cash generating unit for the next five years.

(iii) Discount rates

Management has used the discount rate of 10.4% per annum throughout the assessment period, reflecting the estimated weighted average cost of capital of the Group and specific market risk profile.

41. Social contributions

The social contributions made (including donations and charity) during the year to various beneficiaries amounted to AED 1.45 million (2016: AED 1.72 million).

42. Approval of the consolidated financial statements

The consolidated financial statements were approved on 29 January 2018.

05 BASEL III – PILLAR 3 DISCLOSURES

BASEL III – PILLAR 3 DISCLOSURES

FOR THE YEAR ENDED 31 DECEMBER 2017

The disclosures given below pertain to National Bank of Ras Al Khaimah P.S.C. and its six subsidiaries (the Group) and are in accordance with Basel III, Pillar 3, market discipline principles, where banks are required to disclose qualitative and quantitative information of its risk and capital management. These disclosures are also in compliance with Circular No. 28/2018 dated 17th January 2018, issued by the Central Bank of UAE.

1. Subsidiaries and Significant investments:

The National Bank of Ras Al-Khaimah (P.S.C.) comprises the Bank and its six subsidiaries. These subsidiaries are Ras Al Khaimah National Insurance Company P.S.C. (RAKNIC), RAK Islamic Finance Company Pvt. J.S.C, BOSS FZCO, RAK Technologies FZCO, RAK Funding Cayman Limited and Rak Global Markets Cayman Limited (together referred to as the "Group"). The consolidated financial statements for the year ended 31 December 2017 comprises the Bank and its subsidiaries. The Bank's interests, held directly or indirectly, in the subsidiaries are as follows:

Subsidiary	Authorised and issued capital	Ownership interest	Incorporated	Principal activities
Ras Al Khaimah National Insurance Company P.S.C.	AED 110 million	79.23%	UAE	All type of insurance business.
RAK Islamic Finance Company Pvt. J.S.C**	AED 100 million	99.9%*	UAE	To sell sharia compliant financial products.
BOSS FZCO	AED 500,000	80%*	UAE	Back office support services to the Bank.
RAK Technologies FZCO	AED 500,000	80%*	UAE	Technological support services to the Bank.
Rakfunding Cayman Limited	Authorised USD 50,000 Issued USD 100	100%	Cayman Islands	To facilitate the issue of USD 800 million Euro medium term notes (EMTN) under the Bank's USD 1 billion EMTN programme.
Rak Global Markets Cayman Limited	Authorised USD 50,000 Issued USD 1	100%	Cayman Islands	To facilitate Treasury transactions.

*These represent legal ownership of the Bank. However, beneficial ownership is 100% as the remaining interest is held by a related party on trust and for the benefit of the Bank.

**On 19 April 2017, the shareholders at the annual general meeting resolved to liquidate RAK Islamic Finance Company Pvt. J.S.C. (the "Company") and transfer the net assets and obligations to the Bank at book value. On 21 June 2017, the shareholders approved in the General Assembly to liquidate the Company and resolved to dissolve it in accordance with the provisions of the Federal Law No. (2) of 2015

2. Capital Structure

Quantitative Disclosure:

The Group's capital structure under Basel III is as indicated below:

	Capital Base	AED'000
1	**Common Equity Tier 1 (CET 1) Capital**	**7,247,112**
1.1	Share Capital	1,676,245
1.2	Share premium account	110,350
1.3	Eligible Reserves	3,910,262
1.4	Retained Earnings	1,278,986
1.5	Audited current year profits	774,143
1.6	Expected Dividend	(502,874)
	CET 1 Capital before regulatory adjustments and threshold deductions	**7,247,112**
	Less : Regulatory deductions	-
	Less : Threshold deductions	-
	Total CET 1 capital after regulatory adjustments and threshold deductions	**7,247,112**
2	**Additional Tier 1 (AT 1) Capital**	**-**
2.1	Eligible AT 1 capital	-
2.2	Other AT 1 Capital	-
	Total AT 1 Capital	**-**
3	**Tier 2 Capital**	**-**
3.1	Tier 2 Instruments	-
3.2	Other Tier 2 capital	-
	Total T2 Capital	**-**

3. Capital adequacy

	Capital Requirements	Risk Weighted Assets - AED'000	Capital Charge - AED'000	Capital Ratio (%)
1	Credit Risk - Standardized approach	32,733,601	3,437,028	-
2	Market Risk - Standardized approach	18,056	1,896	-
3	Operational Risk - Standardized Approach / Alternative Standardized Approach	2,276,146	238,995	-
	Total Capital Requirements	**35,027,803**	**3,677,919**	**-**
	Total Capital Ratio	**-**	**-**	**20.69%**

Qualitative Disclosure:

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

The Group's risk management considers a variety of risks. These typically include credit risk, liquidity risk, concentration risk, market risk, interest rate risk, operational risk, information security risk, business continuity risk, reputational risk and regulatory and compliance risk. 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 group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Bank's Board & Management believes that an effective risk department is vital to achieving the strategic growth objective in a sustainable manner. The Board Risk Committee endorses the Bank's overall risk management strategy and appetite and provides necessary direction to the risk management measures undertaken by the Bank. Executive accountability for continuous assessment, monitoring and management of the risk environment and efficacy of risk management procedures reside with executive level committees' viz. Management Risk Committee and Management Credit Committee. During the year, various risk functions were centralized under an independent risk function headed by Chief Risk Officer providing further impetus to the Bank's risk management strategy and governance.

As per the supervisory review process (SRP) under Basel Pillar 2, the Group periodically submits to the Central Bank its Internal Capital Adequacy Assessment Programme (ICAAP) where it sets out all the risks it is exposed to, how it measures, monitors and where possible how it mitigates these risks and how the alignment with capital is achieved. As a part of ICAAP process, the Group has the framework to measure the capital requirements for material risks other than Pillar 1 risks such as liquidity risk, interest rate risk in the banking book and concentration risk under Pillar 2. The Group shall assess these risks and set aside capital if found to be material. It takes into account any feed-back it gets from its regulator.

Liquidity risk is managed by Treasury under the guidance of the Asset and Liability Committee (ALCO) and in accordance with UAE Central Bank regulation and the Bank's internal guidelines. The Treasury has established a formal robust liquidity risk management framework that ensures sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events. The Bank monitors its liquidity ratios on a daily basis and has set up internal management action triggers to take suitable action when required. In addition, liquidity stress testing and scenario analysis is one of the key tools used by the Bank for measuring liquidity risk and evaluating the Bank's short-term liquidity position.

Regulatory Compliance continues to be an area of focus for the Board and Management of the Bank; the Bank continues to maintain a zero tolerance approach with respect to any regulatory breach. An independent compliance function within the Risk Management Department oversees the compliance Risk management framework and procedures across the Bank. The Compliance function is also responsible for actively mitigating Anti Money Laundering and sanctions risks apart from reviewing regulatory landscape and issuance of internal policies.

The function is staffed with qualified professionals. Trainings and workshops are conducted on periodic intervals to maintain and enhance compliance discipline across all facets of the Bank.

The Bank has sufficiently invested in surveillance technology and successfully implemented Customer and Name Screening modules.

The Bank has established an independent Information Security (IS) function under the CRO. Proactively, the IS team monitors the cyber threat landscape and implements controls to mitigate risks. The IS practice of the Bank has a 24x7x365 Security Operations Centre to monitor and respond to any information security threat.

The Group has adopted the Standardized approach for calculation of credit risk and market risk. For operational risk the group has adopted the Alternative Standardized Approach (ASA). The various risks considered in the computation of risk assets under Basel III are described below:

Credit risk

Credit risk is defined as the risk that the Group's customers, clients or counterparties 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 Group to suffer a financial loss.

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

The Bank has centralized Credit Management functions each for Retail banking, Business banking and Wholesale banking lending businesses, independent from the Operations and Business departments. The Bank has implemented appropriate policies, procedures and systems separately for the Retail and Wholesale lending businesses to ensure credit exposure is taken prudently.

In case of Retail banking business, the credit risk is managed through appropriate front-end sales and credit underwriting processes, and back-end operational and collection processes. Appropriate product programmes defining customer segments, underwriting standards and security requirements are rolled-out to ensure consistency in the underwriting and on-boarding process. The Retail credit portfolio is monitored centrally across products and customer segments. For Wholesale Banking and Business Banking exposures, credit risk is managed by appropriately identifying target market segment, structured credit approval process and robust post-disbursement monitoring and remedial processes.

The Board Credit Committee oversees the credit management measures including Portfolio, sectorial and customer level review as also quality of assets and health of large borrower accounts and borrower groups. The executive level Management Credit Committee reviews major credit portfolios, non-performing loans, accounts under watch, overdue and credit sanctions.

Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Asset and Liability Committee (ALCO) is chaired by the Chief Executive Officer and comprises the Divisional heads of Finance, Treasury, Risk, Operations, Wholesale Banking, Business Banking and Retail Banking. It meets on a regular basis to monitor and manage market risk.

Market Risk and Treasury Mid Office functions have been established independent of Treasury Front Office for effective risk management and control under the leadership of the CRO. The governance framework for Market Risk includes internal board approved Market Risk policy and actively tracked Market Risk Limits in line with extant regulations and internal policies. Risk is undertaken in the book within the Investment & Trading polices of the Bank and overall risk appetite. Market Risk ensures that all limit breaches, concentration and other relevant risks are reported to Management and Board on a timely basis.

The Group typically does not enter in to derivative trades for speculative purposes. The exposures to derivatives includes forward exchange contracts, option contracts and interest rate swaps which are entered to meet customer needs and covered back to back in the interbank market. Further, the Bank has executed some interest rate swaps and a cross currency swaps for economic hedging purposes. The Group's proprietary investments are managed according to the Groups investment policy approved by the Investment Committee.

Operational risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Group endeavours to effectively manage and mitigate Operational Risk through a robust and effective control environment across the organisation.

The Operational Risk function is managed by Director – Compliance & Operational Risk reporting to the Chief Risk Officer. The Group has a formal Operational Risk Management (ORM) governance structure established under the aegis of Management Risk Committee (MRC), which provides the strategic direction and oversight over ORM activities of the Bank.

The governance structure is designed to include three levels of Risk Management signifying a clear division of responsibilities between the risk owners (the business, operations and support units), the control functions (Risk Management) and the Internal Audit function for safeguarding the Bank's assets and reputation against potential operational risks arising from day-to-day business activities. The governance structure is described below:

- First Line of Defense - i.e. Business, Operations & Support Units
- Second Line of Defense - i.e. Risk Management
- Third Line of Defense - i.e. Internal Audit

The Group's Operational Risk Management Framework includes Product Management Guideline, Risk & Control Self-Assessment process, Operational Risk Management Database and Key Risk Indicators.

4. Credit Risk - Quantitative disclosures

Gross credit exposure by currency:

At 31 December 2017 the Group had the following gross exposures:

On balance sheet items

At 31 December 2017	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
Assets				
Due from other banks	220,448	3,313,430	265,361	3,799,239
Loans and advances	28,223,922	4,819,105	192,337	33,235,364
Insurance contract assets	345,125	-	-	345,125
Investment securities	65,825	5,322,373	180,551	5,568,749
Customer acceptances	18,704	150,221	2,382	171,307
Other assets	288,129	79,588	1,435	369,152
Total assets	**29,162,153**	**13,684,717**	**642,066**	**43,488,936**

Off-balance sheet items

At 31 December 2017	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
Credit commitments	533,133	-	-	533,133
Letters of credit and guarantees	755,699	455,083	72,308	1,283,090
Total	**1,288,832**	**455,083**	**72,308**	**1,816,223**
Total on and off balance sheet	**30,450,985**	**14,139,800**	**714,374**	**45,305,159**

a) Gross credit exposure by geography:

Geographical risk concentration

At 31 December 2017 the Group had the following gross exposures based on geographical region:

	UAE	OECD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Due from other banks	220,742	925,317	2,653,180	3,799,239
Loans and advances	31,572,853	191,921	1,470,590	33,235,364
Insurance contract assets	314,523	-	30,602	345,125
Customer acceptances	170,290	-	1,017	171,307
Investment securities:				
- Held- for-trade	4,274	-	-	4,274
- Available-for-sale	2,367,766	321,377	2,875,332	5,564,475
Other assets	369,152	-	-	369,152
Total	**35,019,600**	**1,438,615**	**7,030,721**	**43,488,936**

b) Gross credit exposure by industry:

	On balance sheet items					
	Loans and advances	Investment securities	Due from other banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017						
Agriculture, fishing & related activities	28	-	-	28	156	184
Crude oil, gas, mining & quarrying	7,656	-	-	7,656	192	7,848
Manufacturing	1,266,092	185,036	-	1,451,128	56,064	1,507,192
Electricity & water	12,871	423,891	-	436,762	1,218	437,980
Construction	1,392,633	484,934	-	1,877,567	191,977	2,069,544
Trading	5,441,298	-	-	5,441,298	234,589	5,675,887
Transport, storage & communication	1,010,054	503,954	-	1,514,008	16,519	1,530,527
Financial Institutions	1,425,348	1,737,474	3,799,239	6,962,061	333,065	7,295,126
Services	3,399,992	556,748	-	3,956,740	205,110	4,161,850
Government	1,842,281	1,676,712	-	3,518,993	214,960	3,733,953
Retail and consumer banking	17,437,111	-	-	17,437,111	562,373	17,999,484
Total exposures	**33,235,364**	**5,568,749**	**3,799,239**	**42,603,352**	**1,816,223**	**44,419,575**

c) Gross credit exposure by residual contractual maturity:

	Up to 3 months	3 – 12 months	1 – 3 years	3 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 31 December 2017						
Assets						
Due from other banks	1,940,368	1,517,397	294,436	47,038	-	3,799,239
Loans and advances	7,913,041	5,469,484	8,512,248	3,679,939	7,660,652	33,235,364
Investment securities	278,428	301,029	792,221	1,147,335	3,049,736	5,568,749
Insurance contract assets and receivables	143,427	186,538	14,589	571	-	345,125
Customer acceptances	30,243	141,064	-	-	-	171,307
Other assets	369,152	-	-	-	-	369,152
Total	**10,674,659**	**7,615,512**	**9,613,494**	**4,874,883**	**10,710,388**	**43,488,936**

Off-balance sheet items

	No later than 1 year	1-5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000
At 31 December 2017				
Credit commitments	528,303	4,830	-	533,133
Letters of credit and guarantees	1,065,612	216,629	849	1,283,090
Total	**1,593,915**	**221,459**	**849**	**1,816,223**

5. Impairment and provisioning – Qualitative disclosures

a) Past due and impaired loans with provisioning:

The Group assesses at each financial position 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 either 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 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 (i.e. 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 months 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 income statement.

Impaired loan by industry segment:

The breakdown of the gross amount of individually impaired loans and advances by industry is as follows:

	Less than 90 days	Overdue above 90 days	Total	Specific provision
	AED'000	AED'000	AED'000	AED'000
31 December 2017				
Mining and quarrying	676	65	741	188
Manufacturing	28,884	99,659	128,543	35,455
Electricity, Gas and Water	34	657	691	691
Construction and real estate	9,385	36,424	45,809	38,306
Trading	110,643	287,443	398,086	338,388
Transport, storage & communication	39,543	43,126	82,669	56,890
Services	12,881	119,827	132,708	122,676
Retail and consumer banking	66,385	478,458	544,843	306,459
Total impaired loans	**268,431**	**1,065,659**	**1,334,090**	**899,053**

The total impairment provision for loans and advances is AED 995.2 million (2016: AED 1,053.4 million) of which AED 899.1 million (2016: AED 936.6 million) represents provision in respect of the individually impaired loans and advances and the remaining AED 96.1 million (2016: AED 116.8 million) represents the portfolio provision to reflect the risk inherent in the Group's loan portfolio.

b) Impaired loan by geographical distribution

As at 31st December 2017 the total impaired loans outstanding of nonresident customers is AED 13.7 million, out of which AED 13.6 million are mortgage loans backed by collateral.

c) Reconciliation of changes in provision of impaired loans:

	Impairment Provisions	
	Specific	General
	AED'000	AED'000
Opening Balance as at 01 January 2017	936,627	116,802
Net impairment charge for the year	1,705,685	(20,684)
Written off during the year	(1,743,259)	-
Balance as at 31 December 2017	**899,053**	**96,118**

6. Credit risk weighted assets – Quantitative disclosures

			Credit Risk Mitigation (CRM)		On and off balance sheet	
	On and off balance sheet Gross outstanding	Exposure before CRM	CRM	After CRM	Net exposure after credit conversion factors	Risk weighted Assets
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2017						
Claims on sovereigns	5,372,646	5,372,646	-	5,372,646	5,372,646	304,132
Claims on PSE's	82,759	82,759	-	82,759	82,759	-
Claims on multi-lateral development banks	39,829	39,829	-	39,829	39,829	19,914
Claims on banks	6,679,374	6,679,374	-	6,679,374	6,575,020	4,297,534
Claims on corporates and GRE	12,690,510	12,690,510	1,066,047	11,624,463	9,848,043	8,219,163
Claims included in the regulatory retail portfolio	24,179,488	24,179,488	376,529	23,802,959	18,395,918	14,038,796
Claims secured by residential property	4,688,418	4,688,418	-	4,688,418	4,429,948	1,852,455
Claims secured by commercial real estate	1,359,868	1,359,868	-	1,359,868	1,353,896	1,353,896
Past due loans	1,531,093	344,976	-	344,976	342,851	384,443
Other assets	2,881,972	2,881,972	-	2,881,972	2,881,972	2,263,268
Total claims	**59,505,957**	**58,319,840**	**1,442,576**	**56,877,264**	**49,322,882**	**32,733,601**
Of which:						
Rated exposure		8,627,728				
Unrated exposure		50,878,229				

The rated exposure mainly pertains to interbank placements and investments. The majority of all other exposures are unrated.

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

7. Credit risk mitigation:

a) Qualitative disclosure:

The Group 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 Group has a Product Program Guide that sets limits of exposure and lending criteria. The Group also has credit limits that set out the lending and borrowing limits to/from other banks. Further mortgage loans, loan against investments, assets based finance and auto loans, which together represent a significant portion of loans and advances, are backed by collateral.

The Group 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 Credit 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 on-going basis.

b) Quantitative disclosure:

	Exposure	Risk Weighted Assets
	AED'000	AED'000
Gross exposure prior to Credit Risk Mitigation	58,319,840	34,101,583
Less: Exposures covered by eligible financial collateral	(1,442,576)	(1,367,982)
Net Exposures after Credit Risk Mitigation	**56,877,264**	**32,733,601**

The eligible financial collaterals above include cash, deposits and bonds.

8. Market Risk:

a) Capital requirement for Market Risk under standardized approach:

	Risk weighted asset	Capital charge
	AED'000	AED'000
Interest rate risk in the trading book	63	7
Foreign exchange	14,825	1,556
Options	3,168	333
Total Market Risk	**18,056**	**1,896**

The capital charge for year ended 31 December 2017 has been calculated at 10.5%

Equity risk:

As at 31 December 2017, the Group did not have any equity securities in its trading book. All equity investments are under the available for sale category.

Interest rate risk:

Interest Rate risk arises on account of movement of interest rates thereby impacting interest rate instruments in the trading book.

Interest rate risk in the banking book arises due to mismatches of interest rate assets and interest rate liabilities, thereby impacting the Net Interest Income and the market value of equity. This is monitored through the use of detailed gap report and stress testing. Refer to note 38 of the audited financial statement for details of interest rate risk.

9. Operational Risk:

The Group follows Alternative Standardized Approach (ASA) for the calculation of Operational Risk Capital.

The Group has a formal Operational Risk governance structure. The Risk Management Committee provides strategic direction and oversight on Operational Risk management processes.

The Group endeavours to monitor and minimise the Operational Risk exposure through Risk & Control Self-Assessment process, key risk indicators, and recording and tracking of operational risk events and losses.

The calculation of capital requirement for Operational Risk under Alternative Standardised Approach is as follows:

	Three Year Average	M Factor	Beta Factor	Capital Charge	Capital Charge (UAE)	RWA = Capital Charge x 9.524*
	AED'000			AED'000	AED'000	AED'000
Trading and sales	262,559	-	18%	47,261	62,029	590,757
Wholesale banking	4,987,116	0.035	15%	26,182	34,364	327,280
Retail banking	25,868,749	0.035	12%	108,649	142,602	1,358,109
Operational risk					**238,995**	**2,276,146**

* Total risk weighted assets are determined by multiplying the Capital Charge for operational risk by 9.524 (i.e. the reciprocal of the minimum capital ratio of 10.5%) and adding the resulting figures to sum the risk weighted assets.

10. Basel – II

Consolidated capital structure under Basel II as on 31 December 2017

	AED'000
Tier 1 capital	
Share capital	1,676,245
Legal reserves	950,431
Voluntary reserves	337,208
General banking reserves	1,000,000
Credit risk reserves	1,250,000
Regulatory credit reserves	492,000
Fair value reserve	10,370
Retained earnings	1,278,986
Tier 1 capital excluding year 2017 profit	**6,995,240**
Deductions	
Investment in RAKNIC	(317,244)
Tier 1 Capital	**6,677,996**
Tier 2 Capital	-
Total eligible capital	**6,677,996**

Capital Requirements

	AED'000
Credit risk – Standardised Approach	3,832,859
Market risk – Standardised Approach	2,167
Operational risk – Standardised/ASA Approach	273,137
Total Capital Requirements	**4,108,163**

Risk Weighted Assets

	AED'000
Credit risk – Standardised Approach	31,940,491
Market risk – Standardised Approach	18,056
Operational risk – Standardised/ASA Approach	2,276,146
Total Risk Weighted Assets	**34,234,693**

Capital adequacy Ratio under Basel II

	AED'000
Total regulatory capital (After deduction of RAKNIC investments of AED 317,244 thousands and excluding current year profit and proposed dividend)	6,677,996
Capital adequacy ratio (excluding profit and proposed dividend)	**19.51%**
Total regulatory capital (After deduction of RAKNIC investments of AED 317,224 thousands and Including current year profit and post proposed dividend)	6,949,265
Capital adequacy ratio (Including profit and post proposed dividend)	**20.30%**
Total regulatory capital (After deduction of RAKNIC investments of AED 317,224 thousands, Including current year profit and without deducting proposed dividend)	7,452,139
Capital adequacy ratio (Including profit and without deducting proposed dividend)	**21.77%**

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