

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

**Review report and interim financial information  
from 1 January 2016 to 31 March 2016**

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

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## REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

We have reviewed the accompanying condensed consolidated statement of financial position 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") as at 31 March 2016 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the three month period then ended. Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of review*

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

### *Conclusion*

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

### *Other matters*

The consolidated financial statement of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 2 February 2016. Further, the consolidated interim financial information of the Group for the period from 1 January 2015 to 31 March 2015 were reviewed by another auditor who expressed an unmodified conclusion on those consolidated interim financial information on 23 April 2015.

**Deloitte & Touche (M.E.)**



**Musa Ramahi  
Registration No.: 872  
19 April 2016**

**Condensed consolidated statement of financial position  
as at 31 March 2016**

	Notes	31 March 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<b>ASSETS</b>			
Cash and balances with UAE Central Bank	5	4,726,157	4,908,196
Due from other banks	6	2,265,270	1,906,813
Loans and advances, net	7	27,918,495	27,798,096
Investment securities	8	4,104,588	4,115,072
Insurance contract assets and receivables		305,826	325,493
Other assets	9	520,414	424,585
Goodwill and other intangible assets		176,547	177,349
Property and equipment	10	888,464	897,450
<b>Total assets</b>		<b>40,905,761</b>	<b>40,553,054</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to other banks	11	742,513	1,056,141
Deposits from customers	12	28,403,181	27,820,105
Debt security in issue	13	2,779,880	2,864,727
Insurance contract liabilities and payables		366,309	389,783
Other liabilities	14	634,705	704,850
<b>Total liabilities</b>		<b>32,926,588</b>	<b>32,835,606</b>
<b>Equity</b>			
Share capital	15	1,676,245	1,676,245
Share premium		110,350	110,350
Retained earnings		2,351,921	2,102,951
Other reserves	16	3,798,866	3,789,706
<b>Equity attributable to owners of the Parent</b>		<b>7,937,382</b>	<b>7,679,252</b>
Non-controlling interests	17	41,791	38,196
<b>Total equity</b>		<b>7,979,173</b>	<b>7,717,448</b>
<b>Total liabilities and equity</b>		<b>40,905,761</b>	<b>40,553,054</b>

.....  
Peter William England  
Chief Executive Officer

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

**Condensed consolidated income statement (un-audited)  
for the period from 1 January 2016 to 31 March 2016**

	Notes	Three months ended 31 March	
		2016 (un-audited) AED'000	2015 (un-audited) AED'000
Interest income	20	716,221	704,912
Interest expense	20	(64,312)	(51,307)
<b>Net interest income</b>		<b>651,909</b>	<b>653,605</b>
Income from Islamic financing	21	102,849	88,348
Distribution to depositors	21	(10,459)	(8,423)
<b>Net income from Islamic financing</b>		<b>92,390</b>	<b>79,925</b>
<b>Net interest income and net income from Islamic financing</b>		<b>744,299</b>	<b>733,530</b>
Net fees and commission income	22	168,859	166,573
Foreign exchange income		22,995	21,971
Gross insurance underwriting profit		12,127	-
Investment income	23	28,087	277
Other operating income		13,634	9,966
<b>Non-interest income</b>		<b>245,702</b>	<b>198,787</b>
<b>Operating income</b>		<b>990,001</b>	<b>932,317</b>
Operating expenses	24	(341,709)	(377,041)
<b>Operating profit before provision for impairment</b>		<b>648,292</b>	<b>555,276</b>
Provision for impairment of loans and advances, net	7(d)	(398,280)	(193,076)
<b>Profit for the period</b>		<b>250,012</b>	<b>362,200</b>
<i>Attributed to:</i>			
Owners of the Parent		248,970	362,200
Non-controlling interests		1,042	-
<b>Profit for the period</b>		<b>250,012</b>	<b>362,200</b>
<i>Earnings per share:</i>			
Basic and diluted in AED	25	0.15	0.22

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

**Condensed consolidated statement of comprehensive income (un-audited)  
for the period from 1 January 2016 to 31 March 2016**

	<b>Three months ended</b>	
	<b>31 March</b>	
	<b>2016</b>	<b>2015</b>
	<b>(un-audited)</b>	<b>(un-audited)</b>
	<b>AED'000</b>	<b>AED'000</b>
Profit for the period	250,012	362,200
<b><i>Other comprehensive income</i></b>		
<b><i>Items that will be reclassified subsequently to profit or loss</i></b>		
Net changes in fair value of available-for-sale investment securities	11,713	(1,958)
<b>Other comprehensive income for the period</b>	<b>11,713</b>	<b>(1,958)</b>
<b>Total comprehensive income for the period</b>	<b>261,725</b>	<b>360,242</b>
<b><i>Attributed to:</i></b>		
Owners of the Parent	258,130	360,242
Non-controlling interests	3,595	-
<b>Total comprehensive income for the period</b>	<b>261,725</b>	<b>360,242</b>

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

Condensed consolidated statement of changes in equity  
for the period from 1 January 2016 to 31 March 2016

	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Equity attributable to owners of the Parent AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 31 December 2014 (audited)	1,676,245	110,350	1,784,065	3,560,461	7,131,121	-	7,131,121
Profit for the period	-	-	362,200	-	362,200	-	362,200
Other comprehensive income	-	-	-	(1,958)	(1,958)	-	(1,958)
Total comprehensive income for the period	-	-	362,200	(1,958)	360,242	-	360,242
Zakat	-	-	(378)	-	(378)	-	(378)
Balance at 31 March 2015 (un-audited)	1,676,245	110,350	2,145,887	3,558,503	7,490,985	-	7,490,985
<b>Balance at 31 December 2015 (audited)</b>	<b>1,676,245</b>	<b>110,350</b>	<b>2,102,951</b>	<b>3,789,706</b>	<b>7,679,252</b>	<b>38,196</b>	<b>7,717,448</b>
Profit for the period	-	-	248,970	-	248,970	1,042	250,012
Other comprehensive income	-	-	-	9,160	9,160	2,553	11,713
Total comprehensive income for the period	-	-	248,970	9,160	258,130	3,595	261,725
<b>At 31 March 2016 (un-audited)</b>	<b>1,676,245</b>	<b>110,350</b>	<b>2,351,921</b>	<b>3,798,866</b>	<b>7,937,382</b>	<b>41,791</b>	<b>7,979,173</b>

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

**Condensed consolidated statement of cash flows (un-audited)  
for the period from 1 January 2016 to 31 March 2016**

	<b>Three months period ended 31 March</b>	
	<b>2016 (un-audited) AED'000</b>	<b>2015 (un-audited) AED'000</b>
<b><i>Cash flows from operating activities</i></b>		
Profit for the period	250,012	362,200
<b>Adjustments:</b>		
Provision for impairment of loans and advances, net	398,280	193,076
Depreciation of property and equipment	27,843	30,537
Amortisation of intangible assets	802	-
Gain on disposal of property and equipment	(197)	(2)
Amortisation of premium relating to investments held to maturity	3,729	4,026
Loss on available-for-sale investment securities	12,100	-
Gain on sale of available-for-sale investment securities	(26,691)	-
Gain on held for trading investment securities	(19)	-
	<u>665,859</u>	<u>589,837</u>
<b>Changes in operating assets and liabilities</b>		
Increase in deposits with the UAE Central Bank	(129,651)	(97,367)
Increase in due from other banks with original maturities of three months or over	(208,120)	-
Increase in loans and advances, net	(518,679)	(996,155)
Decrease in insurance contract assets and receivables	19,667	-
Increase in other assets	(95,829)	(80,820)
Decrease in due to other banks	(313,628)	(505,361)
Increase in deposits from customers	583,076	5,200,353
Decrease in insurance contract liabilities and payables	(23,474)	-
Decrease in other liabilities	(70,145)	(45,572)
	<u>(90,924)</u>	<u>4,064,915</u>
<b><i>Cash flows from investing activities</i></b>		
Purchase of property and equipment	(18,884)	(9,242)
Proceeds from maturity/disposal of investments	6,296	6,297
Proceeds from disposals of available-for-sale investment securities	26,782	-
Proceeds from disposal of property and equipment	224	3
	<u>14,418</u>	<u>(2,942)</u>
<b><i>Cash flows from financing activities</i></b>		
Purchase of/issue of debt security	(84,847)	1,144,547
	<u>(84,847)</u>	<u>1,144,547</u>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(161,353)</b>	<b>5,206,520</b>
Cash and cash equivalents, beginning of the period	2,439,849	1,002,191
<b>Cash and cash equivalents, end of the period (Note 27)</b>	<b><u>2,278,496</u></b>	<b><u>6,208,711</u></b>

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



**Notes to the condensed consolidated interim financial information  
for the period from 1 January 2016 to 31 March 2016**

**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 and commercial banking services through a network of thirty five branches in the UAE.

At 31 March 2016, The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and five subsidiaries (together referred to as the “Group”). The condensed consolidated interim financial information for the three months ended 31 March 2016 comprises the Bank and following direct subsidiaries.

<i>Subsidiary</i>	<i>Authorised and issued capital</i>	<i>Ownership interest</i>	<i>Incorporated</i>	<i>Principal Activities</i>
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	USD 100	99.9%	Cayman Island	To facilitate the issue of USD 800 million Euro medium term notes (EMTN) under the Bank’s USD 1 billion EMTN programme.

\* These represent legal ownership of the Bank. However, beneficial ownership is 100% as the remaining interest is held by a related party.

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

**2.1 New and revised IFRS applied with no material effect on the condensed consolidated financial statements**

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2016, have been adopted in these condensed consolidated financial statements. The application of these new and revised IFRS has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- IFRS 14 *Regulatory Deferral Accounts*.
- Amendments to IAS 1 *Presentation of Financial Statements* relating to Disclosure initiative
- Amendments to IFRS 11 *Joint arrangements* relating to accounting for acquisitions of interests in joint operations.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)**

**2.1 New and revised IFRS applied with no material effect on the condensed consolidated financial statements (continued)**

- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets* relating to clarification of acceptable methods of depreciation and amortisation.
- Amendments to IAS 16 *Property, Plant and Equipment* and IAS 41 *Agriculture* relating to bearer plants.
- Amendments to IAS 27 *Separate Financial Statements* relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements.
- Amendments to IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 28 *Investment in Associates and Joint Ventures* relating to applying the consolidation exception for investment entities.
- Annual Improvements to IFRS 2012-2014 Cycle covering amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*, IFRS 7 *Financial Instruments: Disclosures* and IAS 19 *Employee Benefits*.

**2.2 New and revised IFRS in issue but not yet effective and not early adopted**

The Group has not yet early applied the following new standard, amendments and interpretations that have been issued but are not yet effective:

<u><i>New and revised IFRS</i></u>	<u><i>Effective for annual periods beginning on or after</i></u>
• Amendments to IAS 12 <i>Income Taxes</i> relating to recognition of Deferred Tax Assets for Unrealised Losses.	1 January 2017
• Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities	1 January 2017
• IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018
<p>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.</p>	

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)**

**2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)**

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
<p>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:</p>	
<ul style="list-style-type: none"> <li>• <b>Classification and measurement:</b> 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.</li> <li>• <b>Impairment:</b> 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.</li> <li>• <b>Hedge accounting:</b> 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.</li> <li>• <b>Derecognition:</b> The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.</li> </ul>	
<ul style="list-style-type: none"> <li>• Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.</li> </ul>	When IFRS 9 is first applied
<ul style="list-style-type: none"> <li>• 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.</li> </ul>	When IFRS 9 is first applied
<ul style="list-style-type: none"> <li>• IFRS 15 <i>Revenue from Contracts with Customers</i>: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.</li> </ul>	1 January 2018
<ul style="list-style-type: none"> <li>• IFRS 16 <i>Leases</i> 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</li> </ul>	1 January 2019

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**2. Application of new and revised International Financial Reporting Standards (“IFRS”) (continued)**

**2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)**

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
<ul style="list-style-type: none"> <li>Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture</li> </ul>	Effective date deferred indefinitely

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

The application of the finalised version of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group’s condensed consolidated financial statements in respect of Group’s financial assets and financial liabilities. However, it is not practicable to provide a reasonable estimate of effects of the application until the Group performs a detailed review.

**3. Significant accounting policies**

The significant accounting policies applied in the preparation of these condensed 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 condensed 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.

These condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34: Interim Financial Reporting (“IAS 34”), issued by the International Accounting Standard Board (IASB) and also comply with the applicable requirements of the laws in the U.A.E.

The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2015.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**3. Significant accounting policies (continued)**

**(a) Basis of preparation (continued)**

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to financial assets, cash and cash equivalents, Islamic financing and investing assets and investment properties have been disclosed in the condensed consolidated financial statements.

**(b) Consolidation**

The condensed consolidated financial statements incorporate the condensed consolidated financial statements of National Bank of Ras Al-Khaimah (P.S.C.) and its subsidiaries (collectively referred to as "Group").

*i) Subsidiaries*

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group.

*ii) Transactions eliminated on consolidation*

Intra-group balances and income and expenses (except for foreign currency transaction gains or losses) arising from intra-group transactions, are eliminated in preparing the condensed consolidated financial statements. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

*iii) Acquisition accounting*

The acquisition method of accounting is used to account for the acquisition of subsidiaries. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest, and the Group allocates the purchase price to these net assets acquired. The measurement period for purchase price allocations ends as soon as information on the facts and circumstances becomes available, but does not exceed 12 months. The Group policy is aligned with that laid out in IFRS 3.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, but excludes acquisition related costs such as advisory, legal, valuation and similar professional services which are charged to the income statement.

The Group measures non-controlling interest that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis.

Goodwill is measured by deducting the net assets of the acquiree from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and fair value of an interest in the acquiree held immediately before the acquisition date.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**3. Significant accounting policies (continued)**

***(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.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)****3. Significant accounting policies (continued)*****(c) Loans and advances and provision for impairment (continued)***

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.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**3. Significant accounting policies (continued)**

*(d) Islamic financing (continued)*

*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) 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.



**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)****3. Significant accounting policies (continued)*****(e) Investment securities (continued)***

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 income statement.

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

Dividends on available-for-sale equity instruments are recognised in the condensed 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)].

***(f) 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.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**4. Critical accounting judgements and key sources of estimation of uncertainty**

The preparation of condensed consolidated financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

**5. Cash and balances with UAE Central Bank**

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Cash in hand	768,792	802,647
Balances with the UAE Central Bank	-	277,835
Statutory deposit with the UAE Central Bank	2,957,365	2,827,714
Certificates of deposit with the UAE Central Bank	1,000,000	1,000,000
	<u>4,726,157</u>	<u>4,908,196</u>

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

**6. Due from other banks**

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Placements with other banks	1,414,218	999,523
Demand deposits	195,148	495,858
Banker's acceptances	534,957	408,567
Clearing account balances	65,852	2,865
Other	55,095	-
	<u>2,265,270</u>	<u>1,906,813</u>

Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)

6. Due from other banks (continued)

The below represents deposits and balances due from:

	31 March 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Banks in UAE	1,272,227	1,042,530
Banks outside UAE	993,043	864,283
	<u>2,265,270</u>	<u>1,906,813</u>

7. Loans and advances, net

	31 March 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>(a) Loans and advances</i>		
Retail banking loans	18,100,869	18,129,609
Wholesale and business banking loans	10,686,599	10,413,087
	<u>28,787,468</u>	<u>28,542,696</u>
Total loans and advances [Note 7(b)]	28,787,468	28,542,696
Provision for impairment [Note 7(c)]	(868,973)	(744,600)
	<u>27,918,495</u>	<u>27,798,096</u>
<b>Net loans and advances</b>		
<i>(b) Analysis of loans and advances</i>		
Personal loans	6,193,172	6,361,103
Mortgage loans	4,162,898	4,098,837
Credit cards	3,421,122	3,379,655
Auto loans	3,097,333	3,158,750
Business banking RAK finance loans	5,801,686	6,221,087
Business banking other loans	1,789,155	1,762,586
Wholesale banking loans	3,095,758	2,429,414
Other retail loans	1,226,344	1,131,264
	<u>28,787,468</u>	<u>28,542,696</u>
<b>Total loans and advances</b>		

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**7. Loans and advances, net (continued)**

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>(c) Provision for impairment</i>		
Balance at the beginning of the period/year	744,600	539,227
Impairment allowance for the period/year	414,044	1,108,461
Written-off during the period/year	(289,671)	(903,088)
<b>Balance at the end of the period/year</b>	<b>868,973</b>	<b>744,600</b>
<i>(d) Provision for impairments/(release) on loans and advances net of recovery</i>		
	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 March 2015 (un-audited) AED'000</b>
Impairment allowance for the period	414,044	203,045
Net recovery during the period	(15,764)	(9,969)
<b>Net impairment allowance the period</b>	<b>398,280</b>	<b>193,076</b>
Net recovery mainly represents amounts subsequently recovered from fully written-off loans.		
<i>(e) Impairment loans and advances provision coverage</i>		
	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Aggregate impaired loans	1,040,775	914,368
Provision held	868,973	744,600
Coverage ratio	83.49%	81.43%

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.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**7. Loans and advances, net (continued)**

*(f) Islamic financing assets*

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

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>i) Islamic financing assets</i>		
Islamic wholesale and business banking assets	1,042,637	1,099,223
Islamic retail financing assets	3,455,534	3,433,666
	<hr/>	<hr/>
Total Islamic financing assets	4,498,171	4,532,889
Provision for impairment	(142,062)	(120,849)
	<hr/>	<hr/>
	<b>4,356,109</b>	<b>4,412,040</b>
	<hr/> <hr/>	<hr/> <hr/>
<i>ii) Analysis of Islamic financing assets</i>		
Islamic Salam Personal finance	1,704,755	1,733,838
Islamic Auto Murabaha	1,124,514	1,156,072
Islamic Business banking Finance	956,694	1,025,971
Islamic Ijara Property Finance	468,523	381,486
Islamic Credit Cards	156,922	161,531
Islamic wholesale banking	85,943	73,252
Islamic finance – other	820	739
	<hr/>	<hr/>
	<b>4,498,171</b>	<b>4,532,889</b>
	<hr/> <hr/>	<hr/> <hr/>

**8. Investment securities**

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>Securities available-for-sale</i>		
Quoted equity securities	42,396	41,784
Unquoted equity securities	107	107
Quoted debt securities	73,642	74,746
	<hr/>	<hr/>
	<b>116,145</b>	<b>116,637</b>
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**8. Investment securities (continued)**

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>Held for trading</i>		
Quoted mutual funds fair valued through profit and loss	3,985	3,966
<i>Securities held-to-maturity</i>		
Unquoted debt securities	220,380	220,380
Quoted debt securities*	3,764,078	3,774,089
	<u>3,984,458</u>	<u>3,994,469</u>
<b>Total investment securities</b>	<u><u>4,104,588</u></u>	<u><u>4,115,072</u></u>

\*As at 31 March 2016, quoted debt securities with book value of AED 341.5 million (31 December 2015: AED 658.4 million) have been given as collateral against repo borrowings of AED 296 million (31 December 2015: AED 591.4 million) (Note 11).

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

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Federal and local Government - UAE	701,239	702,109
Government related entity - UAE	1,025,564	1,034,464
Government - GCC	73,804	74,800
Government related entity - GCC	87,612	87,478
Banks and financial institutions - UAE	590,714	590,819
Banks and financial institutions - GCC	22,020	22,016
Banks and financial institutions - India	823,491	823,897
Banks and financial institutions - Turkey	220,841	220,836
Public limited companies - UAE	185,050	185,090
Public limited companies - India	327,765	327,706
	<u>4,058,100</u>	<u>4,069,215</u>
<b>Total debt securities</b>		
Quoted equity securities	42,396	41,784
Quoted mutual funds	3,985	3,966
Unquoted equity securities	107	107
	<u>4,104,588</u>	<u>4,115,072</u>
<b>Total investment securities</b>	<u><u>4,104,588</u></u>	<u><u>4,115,072</u></u>

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**9. Other assets**

	<b>31 March 2016 (un-audited) AED'000</b>	31 December 2015 (audited) AED'000
Interest receivable	225,458	215,424
Profit receivable on Islamic financing assets	41,164	43,055
Prepayments and deposits	93,845	79,570
Interest rate swaps	62,997	22,625
Other	96,950	63,911
	<u>520,414</u>	<u>424,585</u>

Other includes AED 5.4 million real estate acquired in 2015 on settlement of a loan given to a wholesale banking customer. As per UAE Central Bank regulation, the Group can hold the real estate assets for a maximum period of three years and can extend the holding after obtaining Central Bank approval. The Group can also rent the property and earn rental income. Fair valuation of the property is carried out by an independent valuer having an appropriate professional qualification and is based on recent experience in the location and category of the property being valued.

**10. Property and equipment**

During the period, the Group purchased approximately AED 18.8 million (period ended 31 March 2015: AED 9.2 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 27 thousand (period ended 31 March 2015: AED 1 thousand) for proceeds of AED 224 thousand (period ended 31 March 2015: AED 3 thousand).

**11. Due to other banks**

	<b>31 March 2016 (un-audited) AED'000</b>	31 December 2015 (audited) AED'000
Term deposits	377,634	462,942
Repurchase agreements (Note 8)	296,010	591,403
Due to UAE Central Bank	62,674	-
Demand deposits	6,195	1,796
	<u>742,513</u>	<u>1,056,141</u>

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**12. Deposits from customers**

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Time deposits	7,675,272	7,723,523
Current accounts	15,664,184	15,057,746
Saving deposits	3,761,827	3,740,321
Call deposits	1,301,898	1,298,515
	<u>28,403,181</u>	<u>27,820,105</u>

Time deposits include AED 474 million (2015: AED 484 million) held by the Group as cash collateral for loans and advances granted to customers.

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

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Wakala deposits	1,616,592	1,728,368
Mudaraba term investment deposits	32,432	36,928
Qard-E-Hassan - current accounts	497,974	521,847
Mudaraba - current accounts	1,079,300	1,030,169
Mudaraba - saving accounts	149,173	142,794
Mudaraba - call deposits	47,538	30,633
	<u>3,423,009</u>	<u>3,490,739</u>



**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**13. Debt security in issue**

	<b>31 March 2016 (un-audited) AED'000</b>	31 December 2015 (audited) AED'000
USD 500 million medium term note issued at discount in June 2014	1,827,417	1,826,768
USD 300 million medium term note issued at premium in March 2015	1,109,521	1,110,252
Less: Own investment in debt security issued	(210,275)	(84,053)
Less: Debt security issue costs	(9,780)	(10,865)
Fair value adjustment on hedged debt security in issue	62,997	22,625
	<u>2,779,880</u>	<u>2,864,727</u>

The Group issued USD 500 million medium term note in June 2014 under its USD 1 billion medium term note programme through its subsidiary RAKFunding Cayman Limited. The initial tranche of the note was issued at a discounted rate of 99.275%. In March 2015 second tranche of USD 300 million notes were issued under this programme at a premium rate of 100.875%. These notes mature in 2019 and carry a fixed interest rate of 3.25% per annum. Interest on these medium term notes is payable half-yearly in arrears.

**14. Other liabilities**

	<b>31 March 2016 (un-audited) AED'000</b>	31 December 2015 (audited) AED'000
Interest payable	56,273	34,332
Profit distributable on Islamic deposits	28,167	22,535
Accrued expenses	98,951	195,275
Managers cheques issued	102,977	119,380
Provision for employees' end-of-service benefits	94,066	96,051
Other	254,271	237,277
	<u>634,705</u>	<u>704,850</u>

**15. Share capital and dividend**

At 31 March 2016, the authorised, issued and fully paid share capital of the Group comprised 1,676 million shares of AED 1 each (31 December 2015: 1,676 million shares of AED 1 each).

At the meeting held on 2 February 2016, the Board of Directors proposed a cash dividend of 50% amounting to AED 838 million of the issued and paid up capital in respect of the year ended 31 December 2015 (2014: 50% cash dividend amounting to AED 838 million). Subsequently the shareholders have approved the cash dividend of 50% in the annual general meeting held on 17 April 2016.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**16. Other reserves**

Other reserves include legal reserve and voluntary reserve. In accordance with the Articles of Association of the Bank, 10% of the net profit for the year is to be transferred to a legal reserve until such time as the balance in the reserve equals 50% of the issued share capital and 10% of the net profit for the year is to be transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. No allocations to the legal reserve and the voluntary reserve have been made for the period from 1 January 2016 to 31 March 2016, as these will be effected at the year-end based on the Group's audited results for the year ending 31 December 2016. The movement in other reserves is on account of fair value gains on investment securities.

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

**17. Non-controlling interests**

	<b>Period from 1 January 2016 to 31 March 2016 (un-audited) AED'000</b>	<b>Period from 28 May 2015 to 31 December 2015 (audited) AED'000</b>
Balance at the beginning of the period	38,196	-
RAKNIC acquisition *	-	36,178
Profit for the period	1,042	4,933
Other comprehensive profit/(loss) for the period	2,553	(2,915)
<b>Balance at the end of the period</b>	<b>41,791</b>	<b>38,196</b>

\*On 28 May 2015 RAKBANK acquired 79.23% stake in RAKNIC through public offer. Non-controlling interest on acquisition amounted to AED 36.17 million which represents 20.77% of the fair value of net assets at acquisition date.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**18. Contingencies and commitments**

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Irrevocable commitments to extend credit	<b>33,022</b>	37,646
Letters of guarantee	<b>740,125</b>	723,420
Letters of credit	<b>65,395</b>	76,847
Capital commitments and other	<b>72,645</b>	53,337
	<b>911,187</b>	<b>891,250</b>

Commitments to extend credit shown above represent unfunded amounts out of approved limits offered to customers, which are irrevocable by the Group. Commitments to extend credit amounting to AED 8,689 million (31 December 2015 AED 8,618 million) are revocable at the option of the Group and not included in the above table.

**19. Forward foreign exchange and interest rate swap 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 transactions at 31 March 2016 and 31 December 2015 are as follows:

	<b>Contract Amount AED'000</b>	<b>Fair value AED'000</b>
<b>31 March 2016</b>	<b>659,672</b>	<b>378</b>
31 December 2015	745,446	235

The fair values of outstanding foreign exchange contracts are recorded in other assets if positive, otherwise in other liabilities.

Outstanding interest rate swap transactions at 31 March 2016 and 31 December 2015 are as follows:

	<b>Contract Amount AED'000</b>	<b>Fair value AED'000</b>
<b>31 March 2016</b>	<b>2,850,248</b>	<b>66,290</b>
31 December 2015	2,850,248	22,625

Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)

20. Interest income and expense

	31 March 2016 (un-audited) AED'000	31 March 2015 (un-audited) AED'000
<b>Interest income</b>		
Personal loans	88,638	100,735
Mortgage loans	39,469	44,865
Credit cards	191,209	162,498
Auto loans	34,997	36,904
RAK Finance Business Loans	217,457	244,205
Wholesale banking loans	29,808	18,378
Business Banking Loans	42,675	37,972
Other retail banking loans	20,487	16,338
Investment securities	45,207	41,577
Deposits with the U.A.E. Central Bank	1,018	1,000
Other	5,256	440
	<u>716,221</u>	<u>704,912</u>
<b>Interest expense</b>		
Due to customers	46,140	41,038
Debt securities issued	15,343	9,626
Borrowings from other banks	2,829	643
	<u>64,312</u>	<u>51,307</u>
<b>21. Income from Islamic Financing and distribution to depositors</b>		
	31 March 2016 (un-audited) AED'000	31 March 2015 (un-audited) AED'000
Islamic Salam personal finance	33,936	33,977
Islamic Auto Murabaha	20,230	17,184
Islamic business finance	43,552	35,486
Islamic asset based finance	1,381	31
Islamic property finance	3,750	1,670
	<u>102,849</u>	<u>88,348</u>
Distribution of profit on Islamic term investment deposits	8,577	7,523
Distribution of profit on Islamic demand deposits	1,882	900
	<u>10,459</u>	<u>8,423</u>

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**22. Net fees and commission income**

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 March 2015 (un-audited) AED'000</b>
Personal loans	6,733	6,846
Mortgage loans	7,126	8,002
Credit cards	69,862	58,100
Auto loans	7,569	4,665
RAK Finance business loans	7,034	19,443
Wholesale banking loans	6,600	2,813
Business banking loans	12,079	10,906
Fiduciary income	14,412	20,561
Bancassurance	14,878	14,896
Other	22,566	20,341
	<u>168,859</u>	<u>166,573</u>

**23. Investment income**

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 March 2015 (un-audited) AED'000</b>
Fair value income	19	-
Dividend income	1,286	277
Net gain on disposal of available-for-sale investment	26,782	-
	<u>28,087</u>	<u>277</u>

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**24. Operating expenses**

	<b>31 March 2016 (un-audited) AED'000</b>	<b>31 March 2015 (un-audited) AED'000</b>
Staff costs	135,344	164,145
Occupancy costs	24,992	22,242
Marketing expenses	8,190	10,000
Depreciation and amortisation	28,645	30,537
Communication costs	9,497	8,069
Legal and consultancy fees	8,842	12,124
Computer expenses	22,055	19,295
Outsourced staff costs	85,734	93,864
Other	18,410	16,765
	<u>341,709</u>	<u>377,041</u>

**25. 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 period.

	<b>31 March 2016 (un-audited)</b>	<b>31 March 2015 (un-audited)</b>
Profit for the period (AED'000) (attributed to owners of the Parent)	<u>248,970</u>	<u>362,200</u>
Weighted average number of shares in issue (in thousands)	<u>1,676,245</u>	<u>1,676,245</u>
Basic earnings per share (AED)	<u>0.15</u>	<u>0.22</u>

**26. Fiduciary activities**

The Group holds assets in a fiduciary capacity for its customers without recourse. At 31 March 2016, such assets amounted to AED 1,845 million (31 December 2015: AED 1,786 million) and are excluded from the condensed consolidated interim financial information of the Group.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**27. Cash and cash equivalents**

	<b>31 March 2016 (un-audited) AED'000</b>	31 March 2015 (un-audited) AED'000
Cash in hand	768,792	643,065
Due from other banks	2,265,270	5,565,646
	<u>3,034,062</u>	<u>6,208,711</u>
Less: Due from other banks with original maturity of 3 months or more	<u>(755,566)</u>	-
	<u><u>2,278,496</u></u>	<u><u>6,208,711</u></u>

**28. 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 four main business segments:

- Retail banking - incorporating individual customer and business current accounts, savings accounts, deposits, credit and debit cards, individual and small business customer loans and mortgages;
- Wholesale and business banking – incorporating transactions with corporate bodies including government and public bodies and comprising of loans, advances, deposits and trade finance transactions of corporate and SME customers and financial institutions;
- 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.

Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)

28. Operating segments (continued)

The segment information provided to the management for the reportable segments for the period ended 31 March 2016 and 2015 is as follows:

	Retail Banking (un-audited) AED'000	Wholesale and Business Banking (un-audited) AED'000	Treasury and other (un-audited) AED'000	Insurance business (un-audited) AED'000	Unallocated cost (un-audited) AED'000	Total (un-audited) AED'000
<b>31 March 2016</b>						
Net external interest income	339,308	285,756	26,050	795	-	651,909
Income from Islamic financing net of distribution to depositors	48,230 (13,413)	44,160 1,375	- 12,038	-	-	92,390
Transfer pricing income/expense	-	-	-	-	-	-
<b>Net interest/income from Islamic financing</b>	<b>374,125</b>	<b>331,291</b>	<b>38,088</b>	<b>795</b>	<b>-</b>	<b>744,299</b>
Non-interest income	149,031	42,621	40,993	13,057	-	245,702
<b>Operating income</b>	<b>523,156</b>	<b>373,912</b>	<b>79,081</b>	<b>13,852</b>	<b>-</b>	<b>990,001</b>
Operating expense excluding depreciation and amortisation	(208,745)	(42,773)	(2,150)	(11,808)	(47,588)	(313,064)
Depreciation and amortisation	(7,953)	(508)	(54)	(1,629)	(18,501)	(28,645)
<b>Total operating expense</b>	<b>(216,698)</b>	<b>(43,281)</b>	<b>(2,204)</b>	<b>(13,437)</b>	<b>(66,089)</b>	<b>(341,709)</b>
Impairment charge, net	(179,585)	(218,695)	-	-	-	(398,280)
<b>Net profit/(loss)</b>	<b>126,873</b>	<b>111,936</b>	<b>76,877</b>	<b>415</b>	<b>(66,089)</b>	<b>250,012</b>
Segment assets	18,497,745	11,014,864	9,624,707	773,706	-	39,911,022
Unallocated assets	-	-	-	-	994,739	994,739
<b>Total assets</b>	<b>18,497,745</b>	<b>11,014,864</b>	<b>9,624,707</b>	<b>773,706</b>	<b>994,739</b>	<b>40,905,761</b>
Segment liabilities	15,398,533	12,279,271	4,467,480	430,450	-	32,575,734
Unallocated liabilities	-	-	-	-	350,854	350,854
<b>Total liabilities</b>	<b>15,398,533</b>	<b>12,279,271</b>	<b>4,467,480</b>	<b>430,450</b>	<b>350,854</b>	<b>32,926,588</b>



**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**28. Operating segments (continued)**

The segment information provided to the management for the reportable segments for the period ended 31 March 2016 and 2015 is as follows:

	Retail Banking AED'000	Wholesale and business banking AED'000	Treasury and other AED'000	Insurance business AED'000	Unallocated cost AED'000	Total AED'000
<i>31 March 2015 (un-audited)</i>						
Net external interest income	338,282	286,510	28,813	-	-	653,605
Income from Islamic financing net of distribution to depositors	44,976 (7,920)	34,949 (191)	- 8,111	-	-	79,925
Net transfer pricing income/(expense)						-
Net interest/income from Islamic financing Non-interest income	375,338 140,919	321,268 44,175	36,924 13,693	-	-	733,530 198,787
Operating income	516,257	365,443	50,617	-	-	932,317
Operating expense excluding depreciation Depreciation	(197,070) (10,033)	(47,874) (454)	(1,626) (10)	-	(99,934) (20,040)	(346,504) (30,537)
Total operating expense Impairment charge net of (write-off)/recovery	(207,103) (130,958)	(48,328) (62,118)	(1,636) -	-	(119,974) -	(377,041) (193,076)
Net profit/(loss)	178,196	254,997	48,981	-	(119,974)	362,200
Segment assets as at 31 December 2015 (audited)	18,594,936	10,641,542	9,556,950	787,129	-	39,580,557
Unallocated assets	-	-	-	-	972,497	972,497
Total assets	18,594,936	10,641,542	9,556,950	787,129	972,497	40,553,054
Segment liabilities Unallocated liabilities	15,523,854	11,873,418	4,528,641	469,913	-	32,395,826
Total liabilities	15,523,854	11,873,418	4,528,641	469,913	439,780	439,780
					439,780	32,835,606

Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)

29. Related parties balances

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

	31 March 2016 (un-audited) AED'000	31 March 2015 (un-audited) AED'000
<i>Transactions during the period</i>		
Interest income	82	55
Interest expense	3,614	1,242
Commission income	17	115
Directors' remuneration, sitting fees and other expenses	1,720	2,043
Remuneration payable to key management personnel	2,638	2,231
	<u>          </u>	<u>          </u>
	31 March 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Balances</i>		
<i>Loans and advances:</i>		
- Shareholders and their related companies	-	129
- Directors and their related companies	-	131
- Key management personnel	9,300	5,050
	<u>          </u>	<u>          </u>
	9,300	5,310
	<u>          </u>	<u>          </u>
<i>Deposits</i>		
- Shareholders and their related companies	1,644,230	1,683,511
- Directors and their related companies	14,073	12,945
- Key management personnel	8,063	9,540
	<u>          </u>	<u>          </u>
	1,666,366	1,705,996
	<u>          </u>	<u>          </u>
<i>Irrecoverable commitments and contingent liabilities and forward contracts</i>		
- Shareholders and their related companies	118,819	140,179
- Directors and their related companies	423	423
	<u>          </u>	<u>          </u>
	119,242	140,602
	<u>          </u>	<u>          </u>

Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)

29. Related parties balances (continued)

	31 March 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Insurance related receivables</i>		
Due from policy holders	25,949	19,312
<i>Insurance related payables</i>		
Due to policy holders	235	614

30. Capital adequacy

*Capital structure and capital adequacy as per Basel II requirement as at 31 March 2016*

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 standardised approach is followed for capital charge calculation under pillar 1.

	31 March 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Tier 1 capital</i>		
Ordinary share capital	1,676,245	1,676,245
Share premium	110,350	110,350
Statutory and other reserves	3,802,651	3,803,228
Retained earnings	1,264,346	1,264,828
<b>Total</b>	<b>6,853,592</b>	<b>6,854,651</b>
<i>Deduction</i>		
Investment in RAKNIC	(317,244)	(317,244)
<b>Tier 1 Capital</b>	<b>6,536,348</b>	<b>6,537,407</b>
<b>Tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Total regulatory capital</b>	<b>6,536,348</b>	<b>6,537,407</b>

Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)

## 30. Capital adequacy (continued)

	31 March 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Risk weighted assets</i>		
Credit risk	25,151,050	25,084,932
Market risk	11,217	8,547
Operational risk	1,735,801	1,735,802
	<u>26,898,068</u>	<u>26,829,281</u>
<b>Total risk weighted assets</b>	<u>26,898,068</u>	<u>26,829,281</u>
Capital adequacy ratio on regulatory capital	<u>24.30%</u>	<u>24.37%</u>
Capital adequacy ratio on Tier 1 capital	<u>24.30%</u>	<u>24.37%</u>

The above ratios are computed without considering current year profit. Retained earnings shown above are net of unpaid dividend for the period.

## 31. 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 March 2016, 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 March 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000	31 March 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Assets</i>				
Loan and advances	28,119,337	28,005,631	27,918,495	27,798,096
Investment securities	4,229,650	4,193,318	4,104,588	4,115,072
Cash and balances with the UAE Central Bank	4,727,601	4,911,482	4,726,157	4,908,196
Due from other banks	2,061,951	1,907,656	2,265,270	1,906,813
	<u>39,138,539</u>	<u>39,018,087</u>	<u>39,014,510</u>	<u>38,728,177</u>
<i>Liabilities</i>				
Due to banks	743,056	1,057,492	742,513	1,056,141
Due to customer	28,456,536	27,883,754	28,403,181	27,820,105
Debt securities issued	2,779,880	2,864,727	2,779,880	2,864,727
	<u>31,979,472</u>	<u>31,805,973</u>	<u>31,925,574</u>	<u>31,740,973</u>
<b>Total financial liabilities</b>	<u>31,979,472</u>	<u>31,805,973</u>	<u>31,925,574</u>	<u>31,740,973</u>

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**32. 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 includes financial instruments such as forward 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 Group considers relevant and observable market prices in its valuations where possible. The table below analyses recurring fair value measurements for assets and liabilities.

	<b>Quoted market prices Level 1 AED'000</b>	<b>Observable inputs Level 2 AED'000</b>	<b>Significant unobservable inputs Level 3 AED'000</b>	<b>Total AED'000</b>
<b>31 March 2016 (un-audited)</b>				
<b>Asset at fair value</b>				
<i>(Available-for-sale financial assets)</i>				
Investment securities - debt	73,642	-	-	73,642
Investment securities - equity	29,896	-	107	30,003
Foreign exchange contracts	-	378	-	378
Derivative financial instruments	-	66,243	-	66,243
<b>Held-for-trading</b>				
Investment market fund	3,985	-	-	3,985
<b>Asset at amortised cost</b>				
Investment securities	3,897,731	-	224,289	4,122,020
	<u>4,005,254</u>	<u>66,621</u>	<u>224,396</u>	<u>4,296,271</u>

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**32. Fair value hierarchy (continued)**

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
<i>31 December 2015 (audited)</i>				
<i>Asset at fair value</i>				
<i>(Available-for-sale financial assets)</i>				
Investment securities - debt	74,746	-	-	74,746
Investment securities - equity	28,784	-	107	28,891
Foreign exchange contracts	-	235	-	235
Derivative financial instruments	-	22,625	-	22,625
<i>Held-for-trading</i>				
Investment market fund	3,966	-	-	3,966
<i>Asset at amortised cost</i>				
Investment securities	3,865,421	-	220,385	4,085,806
	<u>3,972,917</u>	<u>22,860</u>	<u>220,492</u>	<u>4,216,269</u>

All the investments are quoted except foreign exchange contracts and derivative financial instruments. There is no transfer between levels during the period, hence no level 3 reconciliation needed.

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**33. Business combination**

On 28 May 2015 the Bank acquired a 79.23% stake in insurance provider Ras Al Khaimah National Insurance Company PSC (RAKNIC) operating in UAE through a public offer made to shareholders of RAKNIC. Management assessed the acquisition as a business combination under IFRS 3, 'Business Combinations'. As a result of the acquisition, the Bank further consolidated its position in insurance market which was earlier through its Bancassurance window.

The following table summarises the consideration paid for acquisition and the fair value of identifiable assets acquired at the acquisition date:

	AED'000	AED'000
<i>Consideration</i>		
Total cash consideration (a)		317,244
<i>Recognised amounts of identifiable intangible assets acquired</i>		
	Book value	Fair Value
<i>Property and equipment</i>	9,092	19,209
<i>Investment securities</i>	54,320	34,320
<i>Cash and cash equivalents</i>	113,288	113,288
<i>Net receivables</i>	56,914	7,384
<i>Value of identifiable net assets on acquisition (b)</i>	233,614	174,201
<i>Fair value of identifiable net assets acquired: [b X 79.23%] (c)</i>		138,023
<i>Intangibles:</i>		
<i>Customer relationships</i>		12,835
<i>Licenses</i>		65,604
<i>Total Intangibles (d)</i>		78,439
<i>Goodwill (a) - (c) - (d)</i>		100,782
<i>Cash consideration transferred</i>		317,244
<i>Cash and cash equivalents acquired</i>		(113,288)
<i>Net cash out flow on RAKNIC acquisition</i>		203,956

**Notes to the condensed consolidated interim financial statements  
for the period from 1 January 2016 to 31 March 2016 (continued)**

**34. Comparative figures**

In accordance with the requirements of IAS 1 *Presentation of Financial Statements* and IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, certain items have been reclassified in the condensed consolidated statement of financial position for the prior year ended 31 December 2015, as previously reported:

*Extract of condensed consolidated statement of financial position:*

	<i>As previously reported AED '000</i>	<i>Reclassifications AED '000</i>	<i>As reclassified AED '000</i>
<u>Assets – extract</u>			
Investment securities	4,114,981	91	4,115,072
Other assets	424,676	(91)	424,585
	<u>                    </u>	<u>                    </u>	<u>                    </u>

The reclassification does not have an impact on the opening reserves of 2015 or on 2014 consolidated financial statements.

**35. Seasonality of results**

No income of seasonal nature was recorded in the condensed consolidated financial statements for the three month periods ended 31 March 2016 and 2015.

**36. Approval of the condensed consolidated financial statements**

The condensed consolidated financial statements were approved on 19 April 2016.