RAKBANK
Simply Better

ANNUAL REPORT 2015

BUILDING ON STRENGTH,
GROWING VERSATILITY

We have built on strong foundations to offer wide-ranging and dynamic solutions that drive stakeholder value.

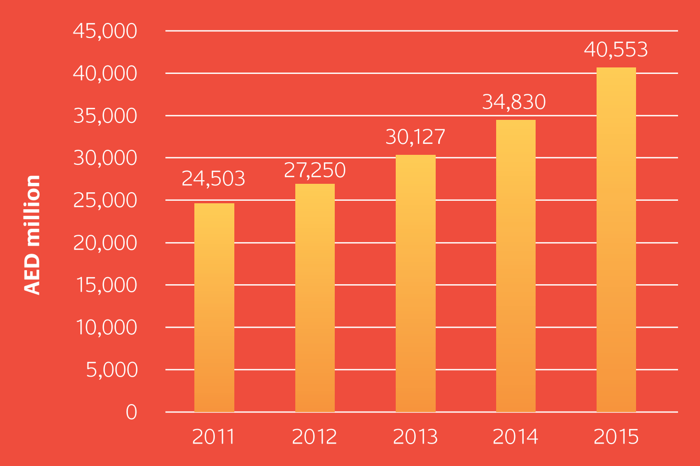
FINANCIAL HIGHLIGHTS

Year Ended 31st December

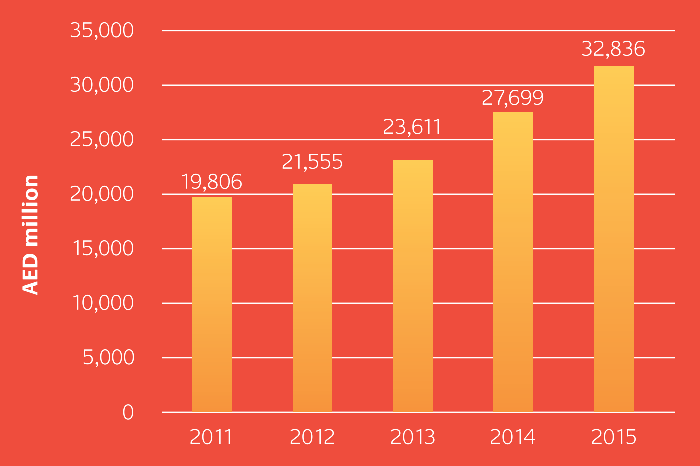
(AED million)	2011	2012	2013	2014	2015
Income Statement					
Interest Income	2,366	2,584	2,677	2,785	2,902
Interest Expenses	(381)	(351)	(248)	(207)	(224)
Income from Islamic Financing	-	-	47	209	405
Islamic Profit Distribution	-	-	(11)	(30)	(35)
Net Interest Income & Income from Islamic Products Net of Distribution to Depositors	**1,985**	**2,233**	**2,465**	**2,757**	**3,048**
Net Fees and Commission Income	522	488	529	653	682
Foreign Exchange Income	58	68	75	87	95
Gross Insurance Underwriting Profit	-	-	-	-	38
Investment (Loss)/Income	49	72	41	6	(6)
Other Operating Income	23	32	40	52	82
Non-Interest Income	**652**	**660**	**685**	**798**	**891**
Total Income	**2,637**	**2,893**	**3,150**	**3,555**	**3,939**
Operating Expenditures	**(1,133)**	**(1,281)**	**(1,379)**	**(1,505)**	**(1,479)**
Operating Profit before Provisons for Impairment	**1,505**	**1,612**	**1,771**	**2,050**	**2,461**
Provisons for Impairment	**(301)**	**(209)**	**(341)**	**(595)**	**(1,055)**
Net Profit	**1,204**	**1,403**	**1,431**	**1,455**	**1,405**
Balance Sheet					
Cash and Balances with the UAE Central Bank	1,844	2,904	3,622	4,217	4,908
Due from Other Banks	1,972	1,196	544	306	1,907
Net Loans and Advances	18,369	20,283	21,959	25,267	27,798
Investments Securities	1,164	1,587	2,696	3,785	4,115
Insurance Contract Assets and Receivables	-	-	-	-	326
Net Property and Equipment	952	1,036	1,029	938	897
Other Assets	202	244	277	317	425
Goodwill and Other Intangible Assets	-	-	-	-	177
Total Assets	**24,503**	**27,250**	**30,127**	**34,830**	**40,553**
Due to Other Banks	335	234	3	762	1,056
Due to Customers	18,290	20,720	23,069	24,651	27,820
Debt Securities Issued / Subordinated Debt	684	-	-	1,668	2,865
Other Liabilities	444	540	473	533	609
Provision for Employees' End of Service Benefits	53	61	66	85	96
Insurance Contract Liablilities and Payables	-	-	-	-	390
Total Liabilities	**19,806**	**21,555**	**23,611**	**27,699**	**32,836**
Key Indicators					
Return on Equity	28.6%	27.0%	23.4%	22.2%	19.3%
Net Interest Margin	8.9%	8.9%	8.6%	8.3%	8.0%
Cost to Revenue	43.0%	44.3%	43.8%	42.3%	37.5%
Return on Assets	5.2%	5.4%	5.0%	4.4%	3.7%
Coverage Ratio	71.3%	62.8%	73.3%	87.1%	81.4%
Gross Impaired Loans Ratio	2.5%	2.5%	2.4%	2.4%	3.2%
Lending to Stable Resources Ratio	91.2%	90.3%	88.1%	88.2%	83.3%
Eligible Liquid Asset Ratio	-	-	19.8%	20.0%	19.1%
Capital Adequacy Ratio	31.3%	28.8%	29.0%	26.5%	24.4%
Tier One	27.0%	28.8%	29.0%	26.5%	24.4%

OUR FIVE YEAR GROWTH

Total Assets

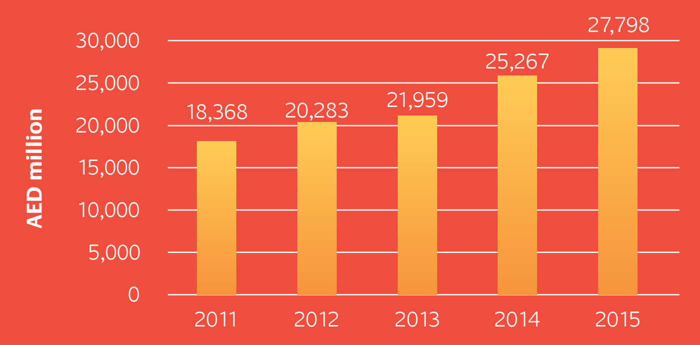


Total Liabilities

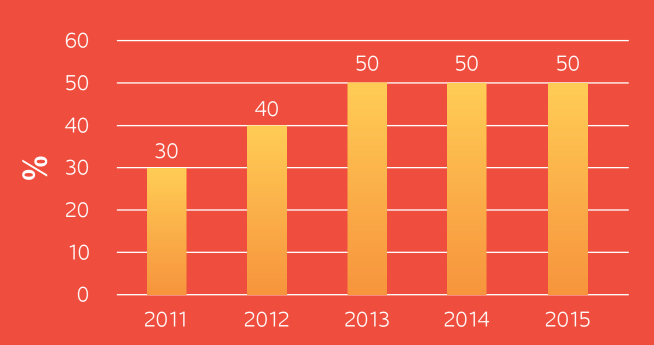


BRANCHES & ATMs

Total Loans and Advances



Cash Dividend



BANK PROFILE

The National Bank of Ras Al Khaimah is one of the UAE's oldest and most dynamic financial institutions. Founded in 1976, we have undergone a series of important transformations. When we rebranded as RAKBANK in 2001, we shifted our focus from purely Corporate Banking to serving Retail customers and Small Businesses. In late 2013, we increased our presence in the traditional SME and Commercial Banking segment, and more recently re-entered Corporate Banking, in line with our strategic plan to diversify our product offering to better serve the needs of our customers.

Today, we offer a wide range of banking services to individual and business customers across the UAE via our branches, mobile sales staff, and industry-leading digital solutions. We also provide a range of Sharia - compliant products and services through our Islamic Banking unit, RAKBANK AMAL. During 2015 we acquired a majority stake in RAK Insurance Company and launched a new Retail Remittance service. These initiatives are part of our ambitious diversification strategy. In 2015, The Banker's Top 1000 World Banks ranked RAKBANK number one by Return on Assets in the UAE and the Arab World.

Since 2001, RAKBANK has built strong foundations that have resulted in several years of sustained growth. We are a UAE bank providing world-class products and industry-leading customer service to people and businesses across the Emirates. We focus on maximising shareholder and asset value by building long-term relationships with our customers, our employees, and our community. Our banking culture is firmly built on transparency, accountability and service excellence.

RAKBANK is a public joint stock company with shares traded on the Abu Dhabi Securities Exchange (ADX). We have a total of five subsidiaries and are collectively known as "the Group". Our corporate Headquarters are in the Emirate of Ras Al Khaimah.

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 Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates

His Highness Sheikh Saud Bin Saqr Al Qasimi
Member of the Supreme Council
Ruler of Ras Al Khaimah

His Highness Sheikh Mohammed Bin Saud Bin Saqr Al Qasimi
Crown Prince of Ras Al Khaimah

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TEN YEARS ON ADX

On 14th August 2015 we celebrated ten years as a listed entity on the Abu Dhabi Securities Exchange (ADX). In that time we have experienced strong and sustained growth, won numerous awards and accolades, and continued to diversify our product offering to better serve the needs of our customers.

2005

- Lists on ADX; market capitalisation of AED 4.537 billion
- Launch of the inaugural Euro Medium Term Notes (EMTN) programme

2006

- Restructured Corporate Banking into a new business banking unit that focuses on mid-market commercial and small-to-medium enterprises
- Raised an additional USD 150 million from our 2005 EMTN programme

2007

- Total assets crossed AED 10 billion
- Raised an additional USD 100 million from our 2005 EMTN programme

2008

- Launched five new branches in Dubai, Abu Dhabi and Ajman
- Received AED 684 million in loans from the Ministry of Finance towards liquidity support

2009

- Converted the liquidity support loans given by the Ministry of Finance in 2008 into 7 year loans
- Settled AED 360 million of the Bank's 2005 EMTN programme and repurchase of a further USD 59 million

2010

- Net profit surpassed AED 1 billion mark
- AED 1.07 billion of the bank's EMTN programme matured and was repaid by the Bank from internal resources

2011

- Launched Mobile Banking Service
- New Operations Centre in Ras Al Khaimah inaugurated by H.H. Sheikh Saud bin Saqr Al Qasimi

2012

- Received a licence from the UAE Central Bank to operate RAK Islamic Finance Company
- Repaid AED 684 million received from the Ministry of Finance

2013

- Launched RAKBANK AMAL Islamic Banking Unit
- Appointed new CEO, Peter England

2014

- Increased Foreign Ownership Limit (FOL) to 40%
- Issued USD 500 million EMTN programme

2015

- Raised additional USD 300 million from our 2014 EMTN programme
- Appointed new Chairman, H.E. Mohamed Omran Alshamsi
- Acquired 79.23% stake in RAK Insurance
- Selective re-entry into Corporate Banking
- Market capitalisation: AED 10.477 billion

PRODUCT DIVERSIFICATION

2005 - 2015

2005 RAKBANK Simply Better

BANKING

PERSONAL ACCOUNTS
- Current Account
- Savings Account
- RAKsave
- RAKvantage
- Fixed Deposit
- Call Deposit

CREDIT CARDS
- Visa Cards
- MasterCard
- NMC cobranded credit card

LOANS
- Expat Loans (personal loans)
- National Loans (personal loans)
- Auto Loans
- Mortgages
- Overdraft

COMPANY ACCOUNTS
- Sole Proprietorship
- Partnership
- LLC
- Free Zones

WEALTH MANAGEMENT
- Structured Products and Old Mutual's (formerly Royal Skandia)
- Managed Savings Account
- Structured Products linked to LIBOR, equities, indices commodities etc.
- NRI Banking

2015 RAKBANK Simply Better

RETAIL

PERSONAL ACCOUNTS
- Current Account
- Savings Account
- F@st S@ver
- RAKsave
- RAKvantage
- Evantage
- RAKvalue for Accounts

BUSINESS CREDIT CARDS
- Titanium Business Credit Card

PERSONAL LOANS
- Loans
- Mortgage Home Loan
- RAKauto Loan
- Overdrafts & Salary Advance

SAVINGS PLAN
- TriPlus
- LifeShield
- EduCare
- Super Secure

DEPOSIT
- Fixed Deposit
- Call Deposit

DEBIT CARDS
- RAKBANK Standard MasterCard Debit
- RAKelite World MasterCard Debit
- RAKelite Platinum MasterCard Debit

BUSINESS LOANS
- RAKfinance Loan and RAKTrade
- SME Business Finance

LIFE INSURANCE
- Smart Term Life Insurance
- FutureInvest
- RAKlife Insurance

HOME INSURANCE
- Home Safe
- Home Comfort

BUSINESS ACCOUNTS
- Current Account
- RAKfinance Account

PREPAID CARDS
- Bayani Prepaid Card
- Bling and Loaded Prepaid Card

MOTOR INSURANCE
- RAK Motor Insurance
- UIC Motor Insurance
- OIC Motor Insurance
- AXA Motor Insurance

TRAVEL INSURANCE
- Travel Insurance

HOSPITALIZATION
- Hospital Cash Benefit

RAKvalue
- RAKvalue for Accounts
- RAKvalue for Credit Cards
- RAKvalue for SME

PERSONAL CREDIT CARDS
- RAKBANK World MasterCard Credit Card
- RAKBANK KALYAN JEWELLERS Credit Card
- Titanium Credit Card
- RAKBANK nmc MasterCard
- RAKBANK Géant La Carte Credit Card
- Visa Credit Card
- RED MasterCard Credit Card
- Standard MasterCard
- RAKvalue for Credit Cards

CRITICAL ILLNESS
- RAKcare

OTHER
- RAKprotect

WHOLESALE
- FINANCIAL INSTITUTIONS
- ASSET BASED FINANCE
- COMMERCIAL BANKING
- CORPORATE BANKING

WEALTH
- RAKelite
- RAKprime
- Investment products by third parties

TREASURY

AMAL ISLAMIC BANKING

PERSONAL CREDIT CARDS
- Amal Titanium Credit Card
- Amal Standard Credit Card

BUSINESS CREDIT CARDS
- Amal Business Titanium Credit Card

DEBIT CARDS
- Amal Debit Card

PERSONAL ACCOUNTS
- Amal Current Account
- Amal Savings Account
- Amal Jood Savings Account
- Amal Advantage Account
- Amal Term Investment Deposit
- Amal Call Investment Deposits
- Amal RAKvalue for Accounts

BUSINESS ACCOUNTS
- Amal Business Current Account
- Amal Business Finance Account
- Amal Call Investment Deposit
- Amal RAKvalue for SME

PERSONAL FINANCE
- Amal Personal Finance
- Amal Home Finance
- Amal Auto Finance
- Amal Salary Advance
- Amal Service Finance

BUSINESS FINANCE
- Amal Business Finance

MOTOR TAKAFUL
- Aman Motor Takaful

FAMILY TAKAFUL PLAN
- Hemayati Plus (Family Takaful Plan)
- Ameen and Ameen Prime
- Hyat Plus and Hyat Superior

RAKVALUE
- RAKvalue for Accounts
- Amal RAKvalue for SME

AMAL WEALTH MANAGEMENT

AMAL BUSINESS EQUIPMENT FINANCE
- Amal Commercial Vehicles
- Amal Construction Equipment
- Amal Professional and General Equipment
- Amal Medical Equipment

IDIKHAR PLUS (SAVINGS PLAN)

Fatwas are available for the Amal Products

H.E. MOHAMED OMRAN ALSHAMSI
CHAIRMAN

On behalf of RAKBANK's Board of Directors, I am happy to present the Audited Financial Statements of RAKBANK ("the Bank") and its subsidiaries (collectively known as "the Group") for the year ended 31 December 2015. With another year of stable performance, the Group has maintained its leadership position in the UAE in terms of Return on Average Assets.

OUR PERFORMANCE

Net Profit for 2015 amounted to AED 1,405.3 million, a marginal decrease of AED 49.3 million on the previous year. The slight dip in profit compared to last year was a result of global and regional economic headwinds impacting the local economy and the performance of our business customers.

In line with the UAE's diversification strategy, the Group's strategic aim for 2015 was to undertake measured investments in new growth areas to sustain healthy levels of profitability.

RAKBANK's Gross Loans and Advances saw a healthy growth of 10.6% over the previous year to AED 28.5 billion. Coupled with a growth of AED 1.6 billion in Lending to Banks, Total Assets were up by 16.4% to cross AED 40 billion.

OUR ECONOMIC ENVIRONMENT

Despite a fall in oil prices and volatile global operating conditions, it is reassuring to see the UAE continuing its strategy for economic diversification and moving away from a dependence on oil revenues. It is particularly pleasing to see the Emirates increase their focus on innovation, manufacturing, tourism, and financial services. The diversity of Ras Al Khaimah's economy, in particular, is helping it meet the challenges created by oil price fluctuations - a fact that has been emphasized by international credit ratings agencies.

OUR STRATEGY

After beginning the implementation of our three year strategic plan in late 2014, I am happy to report that considerable progress has been made during 2015. We have taken important steps towards achieving our ambitions. In addition to diversifying income streams by acquiring RAK Insurance, launching new products and services, and selectively re-entering the corporate banking space, the Group placed greater emphasis on building specialisation and optimising synergies within its functions. These efforts have improved our operational efficiency.

OUR PEOPLE

As a leading UAE Bank, we believe that our most important assets are the people who make our growth path possible. Those people are our customers, employees, and shareholders. We recognise our growing responsibility to the local community and are committed to delivering on the interests of all internal and external stakeholders.

In 2015, we launched a new graduate trainee programme for UAE nationals, as part of our ongoing effort to improve Emiratisation within the Bank. We have introduced a bespoke work experience programme for people with special needs to ensure their inclusion in the workforce, and enhanced our governance structures and processes by introducing an independently managed whistle-blower policy for employees. We have, needless to say, maintained our focus on service excellence and the provision of a seamless and best-in-class customer experience.

OUR FUTURE

Looking ahead, we are committed to generating solid and sustainable growth. At the same time, we are aware of changing market conditions and will continue to uphold a prudent Credit Policy. By maintaining our Capital Base and strengthening Funding and Liquidity, we have placed ourselves in a strong position to meet future challenges.

On behalf of the Board of Directors, I extend my sincere gratitude to His Highness Sheikh Khalifa bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi, and to His Highness Sheikh Saud bin Saqr al Qasimi, Ruler of Ras Al Khaimah and Member of the Supreme Council. I would also like to thank the Central Bank of the UAE for its continued support and unwavering efforts to ensure a sound local banking industry. Finally, I would like to thank our shareholders, valued customers, and RAKBANK's management and employees for their ongoing dedication and commitment.

PETER ENGLAND
CEO

I am pleased to announce another year of resilient financial performance for RAKBANK Group. Our top-line performance for 2015 continued to be strong, despite a challenging macroeconomic environment.

Operating Income grew by 10.8% year-on-year, Operating Expenses dropped by 1.8%, and Operating Profit before Provisions was up by 20.0%, reflecting healthy growth in our key business segments. Net Profit declined by 3.4% year-on-year, due to the significant impact of provisions taken in our Retail and Small Business Finance portfolios.

In early 2015, we read the signs of a softening market and took the decision to continue with our concerted effort to diversify our income base and improve the risk profile of the Group. As we strengthened our existing platforms, we moved into new business lines to ensure long-term and sustainable performance. Our ability to attract and retain both Retail and Corporate Deposits, coupled with conscientious Balance Sheet management, enabled us to maintain a healthy liquidity position.

BUILDING ON STRENGTH

In 2015 we built on our strong foothold in Retail Banking to maintain a strategy of innovative and value-added banking solutions. The year saw the launch of a new premium banking service (RAKelite), three new MasterCard Credit Cards, and a new retail remittance offering (RAK Money Transfer). We also launched our Wholesale Banking segment in line with our strategy to enhance asset mix.

Three main areas of focus defined the year. Firstly, we increased our penetration into larger businesses to grow our Commercial and Corporate Banking portfolios, Trade Sales, Financial Institutions Lending, and Asset Based Financing. Secondly, we began working towards boosting activity in our Treasury segment, which manages money market activities, investments in debt and equity securities and foreign exchange transactions with other banks and financial institutions, including the UAE Central Bank. Thirdly, the Group invested more time and resources in our compliance culture to ensure that we are able to comfortably adhere to an increasingly regulated banking environment.

GROWING VERSATILITY

We recognise that our long term success lies in our ability to build on our strengths, while taking advantage of new market opportunities.

In 2014 we undertook the groundwork for a new chapter at the Bank; in 2015 we strengthened our existing platforms and set sail upon a sea of opportunity. We have begun to explore new business lines, enhancing internal processes and a corporate culture that embraces change.

Our dynamism, versatility, and strong capital base ensure our ability to weather any storm. We are particular in our lending criteria and prudent in our provisioning. Despite challenges, we believe that the overall market presents opportunities for selective growth and we will continue to build market share in our key Retail Banking, Wholesale Banking, and Insurance business segments.

LOOKING AHEAD

In 2016, we plan to continue investing resources in improving our digital capabilities, branch network, and product offerings. We are also significantly enhancing our capability and investment in Treasury to complement our growth efforts across the entire spectrum of Wholesale Banking.

As we grow and diversify our product offering, we remain committed to delivering best-in-class service to customers across the business. We are relentless when it comes to finding new ways to capitalise on our values in service excellence, innovation, and convenience to constantly improve the customer experience. We focus on maximising shareholder and asset value by building long-term relationships with our customers and our employees.

Our accomplishments are only made possible by the continued support of His Highness Sheikh Saud Bin Saqr Al Qasimi, Member of the Supreme Council and Ruler of Ras Al Khaimah, the Government of Ras Al Khaimah, our Chairman, H.E. Mohamed Omran Alshamsi, and the Board of Directors. I would like to take this opportunity to extend my gratitude to our dedicated management and staff for their continued contribution. Through a collective effort, I am confident that the Group will continue to deliver superior returns, despite the external challenges ahead.

Since 2001, RAKBANK has built strong foundations that have resulted in several years of sustained growth. We are a UAE bank providing world-class products and industry-leading customer service to people and businesses across the Emirates. We focus on maximising shareholder and asset value by building long-term relationships with our customers and our employees. Our banking culture is firmly built on transparency, accountability and service excellence.

BUILDING ON STRENGTH, GROWING ON VERSATILITY

Throughout our development, a cornerstone for success has been exceptional customer service. We are committed to ongoing investment in the overall customer experience, enhancing quality and simplifying our financial products. We support our customers during key moments in their personal and professional journeys, at every stage of their lives. We are disciplined and efficient in our operations, employing leading edge technology and IT solutions to deliver an unrivalled customer experience that meets all our customers' needs.

Customer centricity is in our DNA. We listen attentively to customer insights to develop new and innovative products. This approach is in line with an ambitious diversification strategy that will see the Bank become a broad-based UAE financial services provider. By keeping our ear to the ground, we are able to better understand the challenges our customers face, and lead our peers in providing purpose-built solutions. The development of new products and services allows us to capitalise on new opportunities that directly benefit our bottom line. Our recent ISO 9001:2015 certification for our Branches and Inbound Contact Centre is a testament to the Bank's commitment to quality management and to achieving maximum stakeholder satisfaction.

OUR JOURNEY IN 2015

SUPPORTING GROWTH & DEVELOPMENT IN THE UAE

We are committed to a programme of ongoing support for the UAE, its economy, people and culture. Our long-term strategy is aligned with the UAE 2021 vision, as well as the growth strategy of Ras Al Khaimah as it develops and diversifies. RAKBANK contributes to the growth of the country's business community by lending to SMEs and Corporates and by promoting talent and opportunity. Our continued efforts to broaden and grow our digital and mobile services are also closely aligned with the UAE's objective of becoming a smart economy.

DIVERSIFYING OUR PRODUCTS & SERVICES

We make continual efforts to stimulate growth. Having built a position of strength in the UAE we are now working to diversify and expand our range of products and services. Our aim is to become dynamic enough to meet all of our customers' banking and insurance needs. By innovating ahead of the competition we provide comprehensive solutions for our customers and continue to compete with the UAE's biggest banks. We also continue to strengthen our capacity to meet any future challenges.

INVESTING IN HUMAN CAPITAL

A bank's most valuable asset is its employees. We take pride in attracting, developing and retaining talent of all nationalities and backgrounds. Our professional development and specialised training schemes facilitate and encourage career advancement for our employees, rewarding excellence and securing the future success of the Bank.

We are devoted to equal opportunities, with 51% of our in-house positions now occupied by women.

DEVELOPING TECHNOLOGY

We are committed to a process of continuously developing our technology to improve efficiency and make the customer's experience of our touch points more convenient. Because in-house technology developments are critical for protecting the Bank against cyber threats and growing operational efficiency and capacity, we routinely invest in smarter Retail Banking solutions. This year we introduced tablets for our sales team that can be connected directly to a customer's Emirates ID, from which their personal profile is downloaded. Solutions such as these reduce margins for error and provide an increasingly seamless banking experience.

KEY PERFORMANCE INDICATORS (KPIs)

We measure our performance against a set of Key Performance Indicators (KPIs) designed to improve efficiency and performance, drive growth, and enable us to meet our strategic objectives. Our top-line Group KPIs are summarised as follows:

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

It is RAKBANK's vision to offer 'Simply Better' banking solutions for all customers across the UAE. The Bank's products and services are developed with the customer's exact requirements in mind and we strive to continuously enhance our solutions.

BUSINESS PERFORMANCE

OVERVIEW

Our business is divided into four core segments: Retail Banking, Wholesale Banking, Treasury, and Insurance. Our customers are serviced by a network of 35 branches across the UAE, more than 250 ATMs, as well as Telephone, Online, and Mobile Banking solutions. Sales are conducted by a team of staff across all touch points.

In 2015, the Group recorded AED 1,405.3 million in Consolidated Net Profit, a marginal decline of 3.4% from the previous year. The Bank's Operating Income grew by 10.8% year-on-year to AED 3,939.2 million, as a result of a rise in Net Income and Income from Islamic Products Net of Distribution to Depositors.

With a year-on-year drop of 1.8% in Operating Expenses, our Cost-to-Income ratio improved to 37.5% as the Bank maintained its focus on cost optimisation and efficiency. Consolidated Operating Profit Before Provisions for Impairment grew by 20.0% to AED 2,460.7 million.

Provisions for Loan Impairments increased by AED 460.1 million over 2014, due to higher loan provisioning, mainly in unsecured lending portfolios, while Non-Performing Loans stood at 3.2%.

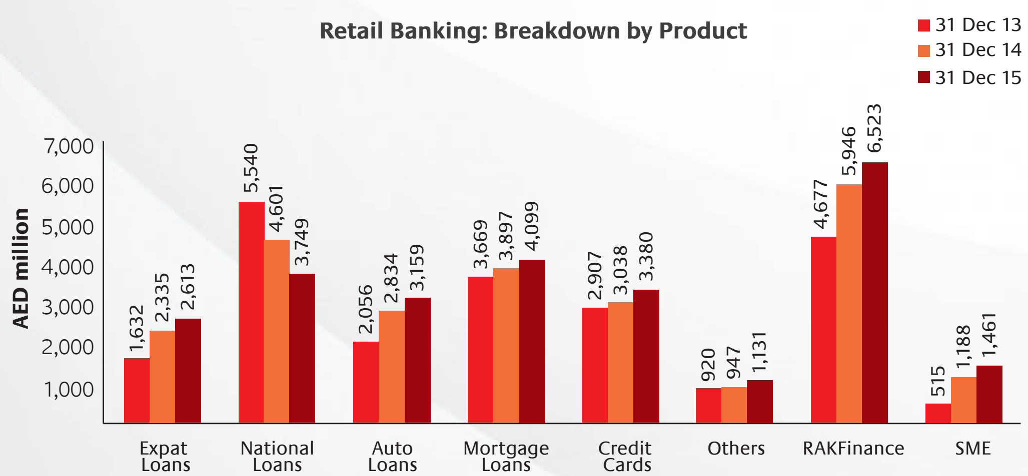
Balance Sheet highlights included an increase of 10.6% in Gross Loans and Advances to AED 28,542.7 million across our Retail and Wholesale portfolios. The Bank's Total Assets grew by 16.4% to AED 40,553.1 million, while Customer Deposits were up by 12.9% to AED 27,820.1 million.*

RETAIL BANKING

Retail Banking is our largest business division. For a number of years RAKBANK has focused on the Retail sector through consistent implementation of a customer-led strategy. As a result, we have a strong foothold, high margins, and excellent brand recognition in this segment.

Retail Banking accounted for 90.7% of Operating Income (AED 3,572.1 million) and 65.2% of Assets (AED 26,447.0 million) as at 31 December 2015. Year-on-year total Retail Banking loans grew by 5.4% (AED 1,328 million). All lending portfolios experienced healthy growth with the exception of National Loans, where lending has been limited.

The Retail Banking division's major successes during the year were the launch of RAKelite, our new premium banking service, the launch of three MasterCard Credit Cards including RAKBANK World, Red 'Tap & Go', and Kalyan Jewellers, and the introduction of RAKMoneyTransfer, our new remittance business with corridors to India in its first phase.*

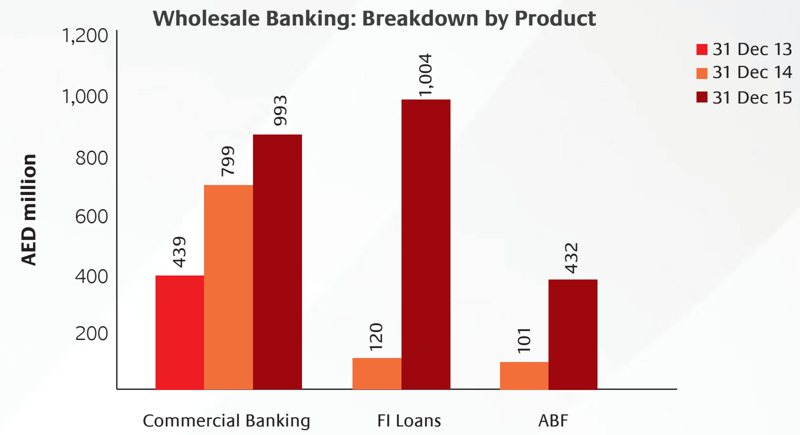


*All figures include Islamic Banking

WHOLESALE BANKING

Having previously pared back our exposure to Corporate Banking, we re-established our presence in the SME and Commercial sector in late 2013 and selectively re-entered the Corporate lending sector in 2015. This year, we introduced a Wholesale Banking segment in line with an effort to increase penetration into larger businesses and to focus on growing Corporate and Commercial Banking, Trade Sales, Financial Institutions Lending, and Asset-Based Finance.

Wholesale Banking contributed to 2.8% (AED 109.9 million) of Operating Income and 6.9% (AED 2,809.3 million) of Assets as at 31 December 2015. Year-on-year total Wholesale Banking loans grew by 138.1% to AED 2,429 million. Commercial lending, Financial Institutions Loans, and Asset Based Finance recorded 24.4%, 735.5%, and 326.2% year-on-year growth respectively.*



TREASURY

The main activities of our Treasury business are money transactions, investment in debt and equity securities, and foreign exchange transactions with other banks and financial institutions, including the UAE Central Bank. Our Treasury division is the custodian of the Bank's liquidity and has the role of supporting the growth of our Retail and Wholesale divisions.

The Treasury business accounted for 5.5% of Operating Income (AED 217.9 million) and 23.6% of Assets (AED 9,554.1 million) as at 31 December 2015. The main Treasury highlight of 2015 was the successful raising of an additional USD 300 million bond as an add-on to the existing USD 500 million bond due on 24 June 2019. The additional funding was issued at a cash price of 100.875, under our USD 1 billion EMTN programme, set up in June 2014.

INSURANCE

As a distributor of third party insurance products offered by multiple local and international insurance providers, RAKBANK identified and exploited the growth opportunity of diversifying into the local insurance market. Having taken a controlling stake in RAK Insurance, we now collaborate with the provider to develop and sell products that enhance revenue and market share.

Our 79.23% stake in RAK Insurance, following the purchase of 87,154,981 shares at AED 3.64 per share, makes us the largest shareholder in the insurance company and supports our strategy to become a diversified financial services provider. The acquisition was completed on 28 May 2015 and by the end of the year we distributed more than 1,500 of its Motor Insurance policies and more than 200 Health Insurance policies.

ISLAMIC BANKING

RAKBANK's Islamic Banking division, AMAL, has been established since 2013 to broaden the choice of products available to our customers. AMAL offers Sharia-compliant Retail and Wholesale Banking solutions, Takaful products and Home Finance services, as well as Credit and Debit cards through RAK Islamic Finance Company (RAKIFC).

Total Income in 2015 increased by 79.1% (AED 440.7 million) year-on-year. At year-end, Gross Islamic Finance stood at AED 4,533 million (an increase of 33.2%) and Deposits at AED 3,491 million (an increase of 34.7%).

*All figures include Islamic Banking

SERVICE QUALITY

As we grow and diversify our product offering, we remain committed to delivering a best-in-class service to customers across the business. We achieve our Service Quality objectives by a process of continual improvement and by listening attentively to feedback and insights. We recognize the importance of a high level of Service Quality to grow loyalty, generate new business and positively impact our bottom line.

In 2015, RAKBANK introduced an improved Service Quality Policy built on four key pillars. Only when we have fulfilled our aims for each of these pillars will we be assured that we have met our promise to customers.

SERVICE	ACCESSIBILITY	TRANSPARENCY	SECURITY

TIMELY & ACCESSIBLE

We strive to deliver timely and error-free service across all our customer touch points, including branches, our 24/7 contact centre, mobile and online banking channels and our dedicated social media pages. Our policy is to respond to all customer concerns within one working day, and to find a resolution for the problem within four days at the latest. We prioritise the confidentiality of our customers' personal information and the Bank's security policy is in line with ISO 27001 guidelines, as published by the National Electronic Security Authority.

CUSTOMER ENGAGEMENT

Our customer engagement programme captures and collates large quantities of feedback and data from customers throughout the year, providing recommendations that are escalated to teams and units for service improvement. The programme includes feedback forms, after-sales feedback, SMS and web-chat feedback, customer satisfaction surveys, contact-us satisfaction surveys, contact-us emails and online banking queries. More than 33,000 forms or reports provided valuable feedback in the course of 2015.

RESEARCH & DEVELOPMENT

In 2015 the Bank ran seven inter-departmental Service Quality Forums, in which customer service processes were reviewed, gaps identified and solutions created. More than 1,000 Mystery Shopping visits were made to branches, to assess the quality of face-to-face customer service interaction, and over 800 benchmarking visits were made, to keep abreast of competition. More than 4,000 Phone Banking and over 700 benchmarking calls were monitored for future improvement. The Service Quality team drafted and vetted over 290 scripts for various divisions, in order to improve standardised business communications. Interactive sessions are regularly held with all business units to inculcate a culture of awareness and understanding for handling complaints and taking appropriate action.

ACHIEVEMENTS

We motivate and encourage our customer service staff by awarding 'Customer Accolades', 'I Caught You' certificates and 'Excellence Awards'. In total, more than 1,500 such awards were presented to our team throughout the year. RAKBANK's Branches & Inbound Contact Centre Teams are now certified for ISO 9001:2015 - the most recent ISO Quality Management System. We are the first bank in the UAE to receive the most recent certificate.

In February 2015 Gulf News ranked RAKBANK as the UAE's No. 1 service-oriented company. The Bank was also awarded Best Service Innovation for our website's customer web-chat facility and Best Mobile App at the Ethos UAE Service Olympian Awards in December 2015.

LOOKING AHEAD

Our Service Quality aims for 2016 are to continue the process of identifying new tools and systems that maximise engagement with customers at all touch points. We will continuously enhance the Voice of Customer programme to better utilise its output and connect it more closely with relevant training sessions. The Service Quality team will also run regular interactive sessions in branches across the UAE to identify and reduce repetitive grievances. The Bank continues to develop its in-house technology to enhance Service Quality by improving convenience, increasing data security and reducing turnaround time (TAT).

OUR PEOPLE

We recognise that our most important assets are the people who make our growth path possible. At every level of the Bank, our dedicated and passionate staff work tirelessly to keep our business running smoothly, and to develop solutions that will deliver value for both shareholders and customers.

The objectives of our Human Resources department are focused on promoting equal career opportunities, supporting the professional development of the UAE's national community, and managing talent to support the Bank's development goals.

EMPLOYEES

Of our 2,500 in-house employees, our female headcount reached 51% in 2015. This is testament to our commitment to providing equal career opportunities to men and women across the UAE - a policy which we have worked hard to achieve and which we will sustain in the coming years. Of our nationwide branches, 46% are now run by women. This is an important development for RAKBANK and for the UAE's banking sector, which today offers opportunities for ambitious and successful female staff to advance their careers in an industry once dominated by men. We've also maintained our commitment to providing job opportunities for UAE nationals wishing to pursue careers in banking, with Emiratis occupying 34% of jobs in Branches and 53% in Operations.

L-R: **HASSAN IBRAHIM TURKI** ON BEHALF OF SAHIM SHAMTE (Head of Sharjah/Ajman & East Coast Branches); **EMAD HITTINI** (Director, Branch Distribution); **NAIMEH ESSA ESTAK** (Head of Old Dubai Branches); **ENAS HASSAN ALI** (Head of Branches, Abu Dhabi & Al Ain); **SALEH ALI SALEH** (Director, RAK Business); **FAHAD TAWHID** (Head of New Dubai Branches)

ATTRACTING GRADUATE TALENT

As an increasingly dynamic and versatile financial services provider, we are always on the lookout for ambitious graduates seeking a career in banking. In 2016, RAKBANK granted 20 scholarships to outstanding students at the American University of Ras Al Khaimah who require financial assistance to support their studies. Our HR team regularly participates in university and school careers fairs around the Emirates, to promote the banking profession to potential employees and showcase our competitive career development opportunities.

TRAINING & DEVELOPMENT

On-the-job training and development for our employees is important for career progression. It is equally important for the Bank's operational efficiency and success. Our staff attend regular in-house seminars and training sessions, while customer-facing employees attend focused product and sales training courses. Members of our sales force are trained on products, cards and the attendant technical processes. Training for technical, compliance and audit-related activities at a corporate level is delivered by external partners. We work closely with Moody's on credit assessment training and certification. The accreditation of our staff to meet their globally recognised best practice criteria has been of immense value.

CASE STUDY

IN 2015 THE INTERNAL AUDIT DEPARTMENT BECAME A CERTIFIED EMPLOYER FOR THE INSTITUTE OF CHARTERED ACCOUNTS IN ENGLAND AND WALES (ICAEW).

RAKBANK is one of only three banks in the UAE to have received this globally recognised certification, and is now qualified to employ and educate trainee accountants. In 2015, three trainees were hired under this scheme. The certificate will last for three years, and will allow the Bank to take on talented and ambitious future accounting professionals from around the world, with the aim of retaining their services post-qualification.

TALENT MANAGEMENT

In the course of 2015, the HR department made strong progress in developing the Bank's talent management structure. We appointed a new Head of Talent, Learning and Nationalisation, who is focused on driving our talent management agenda and boosting career development for UAE nationals. The process has begun positively, with 27 nationals promoted to team leader or supervisory roles.

We have kicked off a succession management pilot programme in Operations, focused on identifying and profiling talented individuals likely to take on senior management roles in the future. Individual assessments are mapped against our organisational structure, business plan and strategy. A series of interventions are then designed to improve performance and plan for future succession within the Bank. In 2016 we aim to apply the same methodology to our Retail and Wholesale functions.

In 2015, RAKBANK's sustainability framework was structured around three main pillars: Economic, Environmental and Social. These sustainability pillars are supported by five main commitments: Responsible Lending, Corporate Philanthropy, Community Support, Ethical Employment and Preservation of Natural Resources. Our belief is that the long term success of the Bank rests on the trust that we earn from a wide range of stakeholders. We aim to foster that trust by consistently delivering on our sustainability commitments.

At a socio-economic level we maintain a strong commitment to providing career opportunities for the national population, encouraging and promoting banking and financial literacy, and offering financial solutions for the Emirates' unbanked population. In 2015 we also developed a specialised in-house function - the Business Support Unit - to advise SME customers on how to keep their business afloat in distressed situations.

In addition to lending our financial support to local and global charities and initiatives focusing on education and healthcare, we continued to support the Ras Al Khaimah Autism Centre, which provides a rehabilitation programme for autistic children in the northern emirates and prepares them for enrolment and integration at regular schools.

We also lent our support to the UAE's only cross-country charity run, organised by the Al Jalila Foundation on the occasion of UAE National Sports Day on 25th November to celebrate the UAE's 44th National Day on 2nd December. The 575 kilometre, 12-day charity run raised AED 777,000 to pay for life-transforming surgeries and post-operative medical support for UAE-based children who are unable to walk, getting them 'back on their feet'.

Finally, in addition to recycling and waste management, we continued to work with the Wildlife Consulting Group in their efforts to preserve the natural environment by sponsoring their wildlife research and conservation projects in our home Emirate of Ras Al Khaimah.

In 2015, we became members of two programmes managed by the Dubai Chamber Centre for Responsible Business. The Dubai Chamber Sustainability Network supports companies in sharing and exchanging responsible business practices, while ENGAGE Dubai promotes employee volunteering as a vehicle for developing professional skills and enhancing corporate reputation.

RAKBANK Ride

Our RAKBANK Ride 'Cycle for a Cause' event was held in March 2015, with individual cyclists completing a 70 kilometre course, and corporate teams completing a 22 kilometre course in work attire. The event was designed to encourage the business community to pursue active and healthy lifestyles, and to raise money for a range of causes associated with the RAK Red Crescent.

INDIMAJ

In late 2015 we launched the INDIMAJ work experience programme for people with special needs, as part of our commitment to promoting an inclusive working environment. With the help of a full-time specialist, each trainee is assessed individually and provided with a tailored on-the-job learning programme during their tenor.

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 a Member of the Board of Emirates Foundation, a Member of the Board of Governors of Khalifa University and Chairman of the Board of Directors for Ras Al Khaimah Properties Company. He is Chairman and Chancellor of the Higher Colleges of Technology, with status of Minister.

H.E. ENGINEER SHEIKH SALEM AL QASIMI
DIRECTOR

H.E. Engineer 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 UAE Fencing Federation, and Chairman of Ras Al Khaimah National Travel Agency (RANTA).

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 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 the Ras Al Khaimah Chamber of Commerce, Industry, and Agriculture. He has held additional posts in a number of ministries. Mr. Al Naeem is currently Chairman of RAK Trade Centre and Al Naeem Mall, Vice Chairman of United Insurance Company, Vice Chairman of RAK Insurance, and Director of Gulf Pharmaceutical Industries (Julphar).

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 Member of the Board of Trustees of the American University of Ras Al Khaimah, and the Chairman of RAK Insurance.

MR. YOUSEF OBAID ALI BIN EASA ALNUAIMI
DIRECTOR

Mr. Yousef Alnuaimi has 37 years of banking experience with HSBC Group. He is currently the president of Ras Al Khaimah's Reconciliation and Commercial Arbitration Centre and Chairman of Ras Al Khaimah's Chamber of Commerce and Industry. Mr. Yousef is a Director at the Federal Chamber of Commerce, the Human Resources Development Committee in the Banking and Financial Sector, and Sheikh Saqr Charity. Mr. Yousef is a member of the Board of Directors for the UAE Banks Federation.

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 of Global Debt Capital Markets at Emirates NBD, before becoming the bank's General Manager of Risk. He also served as Chief Integration Officer and CEO Designate for Emirates NBD Egypt.

MR. ALLAN GRIFFITHS
DIRECTOR

Mr. Allan Griffiths has 40 years of experience in banking, insurance and investment management. He was Chief Executive Officer of AVIVA Australia for the period 2003-2009, with responsibility for AVIVA business operations in Malaysia and Taiwan. He was later appointed Managing Director of South Asia, based in Singapore, with AVIVA Asia Pte Ltd. Mr. Griffiths is currently a director of CARE Australia, IOOF Holdings Pty Ltd and four Westpac Banking Group insurance boards. He is also a director of RAK Insurance.

EXECUTIVE MANAGEMENT

L-R:

VIKAS SURI
MANAGING DIRECTOR, TREASURY

ABDUL KARIM JUMA
DIRECTOR, ISLAMIC BANKING

SUSAN GARDNER
DIRECTOR, GROUP HUMAN RESOURCES

DEEPAK MAJITHIA
CHIEF FINANCIAL OFFICER

L-R:

K.S. RAMAKRISHNAN (RAM)
CHIEF RISK OFFICER

BANALI L MALHOTRA
DIRECTOR, MARKETING

IAN HODGES
MANAGING DIRECTOR, RETAIL BANKING

L-R:

PETER ENGLAND
CHIEF EXECUTIVE OFFICER

NABIL AZAR
DIRECTOR, LEGAL & COMPANY SECRETARY

LAMIS DAOUD
HEAD OF CORPORATE COMMUNICATIONS

MAHADEVAN RADHAKANTHAN
DIRECTOR, WHOLESALE BANKING CREDIT

L-R:

GEOFF STECYK
CHIEF OPERATING OFFICER

SALEH ALI SALEH
DIRECTOR, RAK BUSINESS

RAGHUVEER MEHRA
MANAGING DIRECTOR, RETAIL CREDIT AND ASSETS

RAHUL OBEROI
MANAGING DIRECTOR, WHOLESALE BANKING

COMMITTEES

The Board of Directors has the role of regularly reviewing the Bank's financial performance, as well as the performance 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

Commitee	Responsibilities	Meetings	Frequency	H.E. Mohamed Omran Alshamsi	H.E. Engr. Sheikh Salem Bin Sultan Al Qasimi	Mr. Salem Ali Al Sharhan	Mr. Yousef Obaid Bin Essa Alnuaimi	Mr. Rajan Khetarpal	Mr. Allan Griffiths
Credit Committee	Oversees the risk management framework for controlling credit risk arising from the Bank's Retail Banking and Wholesale Banking segments.	25	Weekly			C	M	M	
Audit Committee	Manages, monitors and reviews financial statements and accounting policies, the functioning of internal audit, and relationships with external auditors.	7	Quarterly		C	M	M		
Risk Committee	Oversees risk management framework relating to Market Risk, Liquidity Risk, Credit Portfolio Risk, Operational Risk, Compliance and Internal Control, IT and Information Security and Legal Risks.	7	Quarterly		C		M		M
Nomination & Remuneration Committee	Reviews the structure, size, composition, and performance of the Bank's Board and those of its subsidiaries. Develops and sets the Bank's remuneration framework covering Board members, the CEO, management and staff.	3	Half Yearly	C	M				

C = Chairman, M = Member

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.

Executive Committee	Assets & Liabilities Committee (ALCO)	Management Risk Committee	Information Technology (IT) Steering Committee	Management Credit Committee

In 2015, the Bank introduced an independently managed whistle-blower policy. The policy provides 24/7 access for employees to report incidents and issues across a wide range of anonymous channels.

ISLAMIC BANKING GOVERNANCE

Islamic Banking at RAKBANK is an independently managed business comprising the Islamic Banking Division (IBD), a business unit of RAKBANK, and RAK Islamic Finance Company Pvt. J.S.C. (RAKIFC), a fully owned subsidiary of the Bank with a paid up capital of AED 100 million, and its own Board of Directors.

The Islamic Banking Division and RAKIFC are managed under the brand 'AMAL', offering Sharia-compliant financial solutions to individual and corporate customers. RAKBANK IBD and RAKIFC are 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 enhance governance of its Islamic Business to ensure complete Sharia compliance.

The Credit Card proposition of the business is offered through RAKIFC, whereas all other Islamic Asset and Liability Products are offered through the IBD platform. Sharia governance is carried out under the guidance of a three-member Fatwa and Sharia Supervisory Board (FSSB), which meets regularly to supervise the business.

The Islamic business operates in accordance with the Islamic Financial Services Board (IFSB) standards and guidelines as laid out by the Accounting & 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, RAKIFC and FSSB.

DAS conducts regular audits to ensure compliance with Sharia regulations. Fatwas (Sharia pronouncements) are issued by the FSSB for all products and services to certify compliance with the principles of Sharia, which 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 the Bank's website and displayed at the Bank's branches.

To ensure transparency and clear distinction between conventional and Islamic Business, the Bank maintains separate sets of product-specific Terms & Conditions, legal documentation, application forms, and service and price guides. A separate tariff board is displayed at branches and all transaction documentation has Islamic features embedded.

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

RISK MANAGEMENT

RAKBANK aims to achieve an appropriate balance between risk and return and to minimize potential adverse effects on the Bank's financial performance. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products, and emerging best practice.

1. CREDIT RISK

The credit department, including the collections team, is responsible for the recognition and management of credit risk both at transaction and portfolio levels and for ensuring that risk procedures are adhered to in a manner that is consistent with the framework set out in the credit risk policy, product programmes, and credit circulars, and 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 grading is done by quantifying the credit quality of counterparty 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.

2. LIQUIDITY RISK

The Bank manages its liquidity in accordance with UAE Central Bank requirements and the Bank's internal guidelines mandated by the Asset and Liability Committee ("ALCO"). Based on the directives of the ALCO, the Treasury segment manages the liquidity of the Bank. The Treasury segment is responsible for establishing a 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. The liquidity position is actively supervised by the ALCO.

3. MARKET AND INTEREST RATE RISK

The Bank monitors and manages foreign exchange, interest rate and equity risk. The responsibility of establishing a robust interest rate risk management framework is primarily with the Treasury segment. This is actively supervised by the ALCO. The most significant component of interest rate risk for the Bank stems from the differences in tenor for fixed rate and re-pricing for floating rate of the Bank's assets and liabilities. The Bank monitors this through an interest rate risk gap report. Detailed analyses and stress tests are conducted to analyse the impacts of markets on RAKBANK's position on a monthly basis.

4. OPERATIONAL RISK

The management of operational risk commences with the adoption of a formal governance structure under the Management Risk Committee (MRC) to provide strategic direction, oversight and monitoring of the Operational Risk Framework. The Framework incorporates standards for risk that are based on best practice and codify the core governing principles for operational risk management. It ensures that identification, evaluation, control, measurement, monitoring and reporting of operational risks are consistent across the bank. The Management Risk Committee (MRC) is responsible for all other forms of risks that are operational in nature. The committee reviews adequacy and effectiveness of internal control systems, operational risk management procedures and risk assessment methodologies. The Bank monitors these through an Operational Risk Database (ORDB) and key risk indicators on a regular basis.

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 2015. Net profit for the year amounted to AED 1,405.3 million, a marginal decrease of AED 49.3 million over the previous year, continuing the Group's leadership position in the UAE in terms of Return on Average Assets of 3.7% and Return on Average Equity of 19.3%. Total assets stood at AED 40.6 billion, increasing by 16.4% compared to 31 December 2014. Gross loans and advances closed at AED 28.5 billion, up by 10.6% over the previous year.

FINANCIAL PERFORMANCE

The decrease of AED 49.3 million in the 2015 net profit over that of 2014 was mainly due to an increase of AED 460.1 million in provision for impairment in loans and a decrease of AED 12.6 million in investment income. The total operating income increased by 10.8% whilst the operating expenses decreased by AED 26.7 million, down by 1.8% over the previous year. The operating expenses were lower mainly due to a decline in outsourced staff costs, marketing expenses and depreciation costs. Operating profit before impairment losses grew by AED 410.8 million, up by 20% over 2014. This was offset by an increase of AED 460.1 million in provisions for loan impairment, up by 77.3% from the previous year, as a result of larger payment defaults in the unsecured loan products, SME and Commercial Banking segments.

The growth in Total Operating Income by AED 384.1 million to AED 3.9 billion was mainly due to an increase of AED 291.1 million in Net Interest Income and Income from Islamic finance net of distribution to depositors compared to the previous year. Net Interest Income and income from Islamic financing increased to AED 3.0 billion. Interest income from conventional loans and investments increased by 4.2% over the last year, while interest costs on conventional deposits and borrowings increased by 8.1%. Net income from Sharia-compliant financing was up by AED 191.4 million which was in line with the increase in Islamic Financing portfolio.

Non-interest income grew by AED 93 million to AED 890.9 million, on the back of AED 37.5 million in income from the insurance segment since acquisition of Ras Al Khaimah National Insurance Company PSC (RAK Insurance) in May 2015. There was an increase of AED 30.7 million in other operating income, AED 29.3 million in net fees and commission income compared to 2014. Foreign exchange and derivative income was up by AED 8.1 million and investment income decreased by AED 12.6 million over the previous year. The decrease in investment income was due to an impairment charge for the decline in value of the equity investments portfolio compared to a gain in the previous year.

Operating costs were down by AED 26.7 million, a decrease of 1.8% over 2014. This was mainly due to a decrease of AED 10.5 million in outsourced staff costs and AED 2.8 million in marketing costs. There was a drop of AED 6.8 million in depreciation costs. Combined with an increase in Total Operating Income, the Group's cost to revenue ratio came down to 37.5% compared to 42.3% for the previous year.

Non-performing loans and advances to gross loans and advances ratio closed at 3.2% compared to 2.4% and net credit losses to average loans and advances closed at 3.8% compared to 2.5% in the previous year. The Group is well provisioned against loan losses with a conservative loan

FINANCIAL PERFORMANCE (continued)

loss coverage ratio of 81.4% compared to 87.1% at the end of 2014 and 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, which amounts to AED 377 million. Together with this reserve, the provision coverage ratio would increase to 122.7%.

Total assets increased by 16.4% to AED 40.6 billion compared to the end of 2014 with the major contributions coming from gross loans and advances and lending to banks which grew by AED 2.7 billion and AED 1.6 billion respectively. The Wholesale Banking segment lending, grew by 138.1% up by AED 1.4 billion over the previous year. Retail banking segment loan portfolio which includes small and medium business loans grew by AED 1.3 billion compared 31 December 2014. Our 'Amal' Islamic Banking unit continues to grow, achieving an increase of AED 1.1 billion in its financing portfolio, up by 33.2% over the last year.

Customer deposits grew by AED 12.9% to AED 27.8 billion compared to 2014. The growth came mainly from an increase of AED 2.5 billion in demand deposits and AED 653.2 million in time deposits. Islamic customer deposits grew by AED 899.2 million to AED 3.5 billion compared to the previous year.

During the first half of 2015, the Group successfully issued the second tranche of USD 300 million notes under its USD 1 billion medium term note program at a premium rate of 100.875% through its subsidiary RAKFunding Cayman Ltd, to take advantage of the low-cost financing opportunities in the bond market and to proactively tackle the duration mismatch from funding longer tenure loans using short-term deposits. So far the Group has issued USD 800 million of these notes against the original programme of USD 1 billion. 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.

In the Ordinary General Assembly on 18 August 2014, the shareholders of the Bank had approved the acquisition of a majority stake in RAK Insurance at a cash price of AED 3.64 per share. The Bank received approval on 6 January 2015 from the Central Bank of UAE to proceed with the share purchase offer to the shareholders of RAK Insurance. In May 2015 the Bank made a public offer to shareholders of the insurance company to purchase their shareholding at a cash price of AED 3.64 per share. 79.23% of RAK Insurance shareholders accepted this offer and on 28 May 2015 the Bank acquired 79.23% stake in the company which has been accounted for as a subsidiary since then.

The Bank's Tier 1 ratio as per Basel II after taking into consideration the profit for 2015 and the proposed dividend was 24.4% at yearend (subject to shareholders and UAE Central Bank approval), compared to 26.5% at the end of 2014, against a requirement of 12% set by the UAE Central Bank. We find that this level of capital provides the Bank with ample room for growth in 2016. The regulatory eligible liquid asset ratio at the end of the year was 19.1%, compared to 20.0% at the end of 2014, and advances to stable resources ratio stood comfortably at 83.3% compared to 87.9% at the end of 2014.

RATINGS

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

Rating Agency	Last Update	Deposits	Outlook
Moody’s	September 2015	Baa1 / P-2	Stable
Fitch	August 2015	BBB+ / F2	Stable
Capital Intelligence	August 2015	A-/A2	Stable

DIVIDEND AND APPROPRIATION OF PROFITS

The Directors, at the board meeting held on 2 February 2016 have recommended a cash dividend of 50%. The Directors consider that the Bank is well placed to meet the continuing challenges which will be faced during 2016. The dividend recommendations will result in 40% 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 general banking risk reserve by AED 100 million, credit risk reserve by AED 100 million and regulatory credit risk reserve by AED 43 million to align it at 1.5% of the Bank’s total credit risk weighted assets. These measures will increase the Bank’s shareholders’ equity to AED 6.8 billion after payment of the proposed cash dividend. A detailed appropriation schedule is provided in note 14 to the financial statements.

DEVELOPMENTS IN 2015

- Raising an additional USD 300 million bond through its EMTN
- Appointing a new Chairman, H.E. Mohamed Omran Alshamsi
- Acquiring 79.23% stake in RAK Insurance
- Selectively re-entering the Wholesale Banking segment to diversify the Bank’s risk profile
- Launching RAKelite premium banking
- Achieving the ISO 9001:2015 version certificate for the Bank’s Branches and Inbound Contact Centre, certified by QCS Management Pvt Ltd of ISO 9001:2015 Quality Management System
- Introducing RAKMoneyTransfer’s new remittance business with corridors to India
- Launching three new MasterCard Credit Cards including RAKBANK World, Red ‘Tap & Go’, and Kalyan Jewellers
- Introducing a new logo and refreshed corporate branding

RECOGNITION IN 2015

- Best SME Bank in the Middle East for RAKFinance at The Asian Banker Middle East Retail Product Awards
- Best Mobile Banking Initiative for MobileCash at The Asian Banker Middle East Retail Product Awards
- Best Service Innovation for Customer Web-Chat by Ethos UAE Service Olympian Awards
- Best Mobile App by Ethos UAE Service Olympian Awards
- Best Segment Solution for World MasterCard Credit Card by MasterCard Innovation Forum
- EMEA Customer Innovation Award by Genesys G-Force Awards

DIRECTORS’ REPORT TO THE SHAREHOLDERS (continued)

OUTLOOK FOR 2016

Looking to the future, we remain committed to generating solid and sustainable growth across our Retail, Wholesale, Treasury and Insurance segments. We are placing greater emphasis on optimizing synergies within the Group to increase efficiency while supporting the diversification of our revenue streams. By doing so, we aim to better serve our customers by offering them a seamless experience across the Bank’s diverse products and services through industry-leading customer service, innovation, and simplicity. We will also continue to strengthen our capacity to meet any future challenges.

H.E. MOHAMED OMRAN ALSHAMSI
CHAIRMAN

For and on behalf of the Board of Directors
2nd February 2016

AWARDS IN 2015

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF THE NATIONAL BANK OF RAS AL-KHAIMAH (P.S.C.)

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

We have audited the accompanying consolidated financial statements of The National Bank of Ras Al-Khaimah (P.S.C.) ("the Bank") and its subsidiaries (together referred to as "Group"), which comprise the consolidated statements of financial position as of 31 December 2015 and the consolidated statement of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the 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.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

As required by the UAE Federal Law No. (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 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 Chairman's and Directors' report is consistent with the books of account of the Group;
v) as disclosed in note 7 to the consolidated financial statements, the Group has purchased / invested in shares during the year ended 31 December 2015;
vi) note 34 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
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 Group has contravened during the year ended 31 December 2015 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2015; and
viii) note 44 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2015.

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.

PricewaterhouseCoopers
2 February 2016

DOUGLAS O'MAHONY
Registered Auditor Number 834
Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December	Notes	2015 AED'000	2014 AED'000
ASSETS			
Cash and balances with the UAE Central Bank	3	4,908,196	4,217,469
Due from other banks	4	1,906,813	305,947
Loans and advances, net	5	27,798,096	25,266,475
Investment securities	7	4,114,981	3,785,289
Insurance contract assets and receivables	9	325,493	-
Other assets	11	424,676	317,263
Goodwill and other intangible assets	10	177,349	-
Property and equipment, net	8	897,450	937,714
Total assets		**40,553,054**	**34,830,157**
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	1,676,245	1,676,245
Share premium	13	110,350	110,350
Retained earnings		2,102,951	1,784,065
Other reserves	14	3,789,706	3,560,461
Equity attributable to equity holders of the Bank		7,679,252	7,131,121
Non-controlling interests	15	38,196	-
Total shareholders' equity		**7,717,448**	**7,131,121**
LIABILITIES			
Due to other banks	16	1,056,141	761,807
Deposits from customers	17	27,820,105	24,651,408
Debt security in issue	19	2,864,727	1,667,629
Insurance contract liabilities and payables	20	389,783	-
Other liabilities	21	608,799	533,340
Provision for employees' end of service benefits	22	96,051	84,852
Total liabilities		**32,835,606**	**27,699,036**
Total equity and liabilities		**40,553,054**	**34,830,157**

These consolidated financial statements were authorised for issue by the Board of Directors on 2 February 2016 and were signed on its behalf by:

H.E. MOHAMED OMRAN ALSHAMSI
Chairman

PETER WILLIAM ENGLAND
Chief Executive Officer

The notes from 1 to 44 form an integral part of these consolidated financial statements

CONSOLIDATED INCOME STATEMENT

Year ended 31 December	Notes	2015 AED'000	2014 AED'000
Interest income	25	2,901,754	2,785,319
Interest expense	25	(223,829)	(207,116)
Net interest income		**2,677,925**	**2,578,203**
Income from Islamic financing	26	405,287	209,290
Distribution to depositors	26	(34,917)	(30,287)
Income from Islamic financing net of distribution to depositors		**370,370**	**179,003**
Net interest income and income from Islamic products net of distribution to depositors		**3,048,295**	**2,757,206**
Net fees and commission income	27	682,250	652,945
Foreign exchange income		94,894	86,813
Gross insurance underwriting profit	28	37,505	-
Investment (loss) / income	29	(6,168)	6,435
Other operating income		82,456	51,753
Non-interest income		**890,937**	**797,946**
Operating income		**3,939,232**	**3,555,152**
Operating expenses	30	(1,478,507)	(1,505,219)
Operating profit before provision for impairment		2,460,725	2,049,933
Provision for impairment of loans and advances net of write backs	5(d)	(1,055,405)	(595,331)
Net profit for the year		**1,405,320**	**1,454,602**
Attributed to:			
Equity holders of the Bank		1,400,387	1,454,602
Non-controlling interests		4,933	-
Net profit for the year		**1,405,320**	**1,454,602**
Earnings per share			
- Basic and diluted in AED	32	AED 0.84	AED 0.87

The notes from 1 to 44 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December	Note	2015	2014
	Note	AED'000	AED'000
Net profit for the year		1,405,320	1,454,602
Items that may be re-classified subsequently to the income statement			
Changes in fair value of available-for-sale investment securities	7(c)	(20,274)	2,208
Impairment / (net realized gain) transferred to income statement	7(c)	6,000	(3,636)
Total other comprehensive income		(14,274)	(1,428)
Total comprehensive income for the year		**1,391,046**	**1,453,174**
Attributed to:			
Equity holders of the Bank		1,389,029	1,453,174
Non-controlling interests		2,017	-
Total comprehensive income for the year		**1,391,046**	**1,453,174**

The notes from 1 to 44 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note	Share capital	Share premium	Retained earnings	Other reserves (see note 14)	Equity attributable to equity holders of the Bank	Non-controlling interests	Total
		AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2014		**1,676,245**	**110,350**	**1,452,439**	**3,277,036**	**6,516,070**	**-**	**6,516,070**
Total comprehensive income for the year		-	-	1,454,602	(1,428)	1,453,174	-	1,453,174
Transfer to regulatory credit risk reserve	14	-	-	(53,000)	53,000	-	-	-
Transfer to legal reserve	14	-	-	(30,386)	30,386	-	-	-
Transfer to voluntary reserve	14	-	-	(1,467)	1,467	-	-	-
Transfer to credit risk reserve	14	-	-	(100,000)	100,000	-	-	-
Transfer to general banking reserve	14	-	-	(100,000)	100,000	-	-	-
Dividend paid to equity holders of the Bank	12	-	-	(838,123)	-	(838,123)	-	(838,123)
At 31 December 2014		**1,676,245**	**110,350**	**1,784,065**	**3,560,461**	**7,131,121**	**-**	**7,131,121**
Non controlling interest and treasury stock elimination on RAKNIC acquisition		-	-	-	(2,397)	(2,397)	36,179	33,782
Total comprehensive income for the year		-	-	1,400,387	(11,358)	1,389,029	2,017	1,391,046
Zakat		-	-	(378)	-	(378)	-	(378)
Transfer to regulatory credit risk reserve	14	-	-	(43,000)	43,000	-	-	-
Transfer to legal reserve	14	-	-	-	-	-	-	-
Transfer to voluntary reserve	14	-	-	-	-	-	-	-
Transfer to credit risk reserve	14	-	-	(100,000)	100,000	-	-	-
Transfer to general banking reserve	14	-	-	(100,000)	100,000	-	-	-
Dividend paid to equity holders of the Bank	33	-	-	(838,123)	-	(838,123)	-	(838,123)
At 31 December 2015		**1,676,245**	**110,350**	**2,102,951**	**3,789,706**	**7,679,252**	**38,196**	**7,717,448**

The notes from 1 to 44 form an integral part of these consolidated financial statements

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December	Note	2015 AED'000	2014 AED'000
Operating activities			
Net profit for the year		1,405,320	1,454,602
Adjustments:			
Provision for impairment of loans and advances net of write backs	5(d)	1,055,405	595,331
Depreciation	8	121,302	130,000
Amortisation of intangible assets	10	1,872	-
Fair valuation of asset acquired	11	(5,400)	-
Provision for employees' end of service benefits	22	19,305	22,791
Gain on disposal of property and equipment		(934)	(1,182)
Amortisation of premium relating to investments	7(c)	16,129	15,784
Loss/(gain) on sale of held for trading securities	7(c)	799	(1,334)
Gain on sale of investment securities		-	(3,636)
Loss on available for sale investments securities	7(c)	6,000	-
Loss on sale of held to maturity investments securities		-	709
Operating cash flows before payment of employees' end of service benefits and changes in assets and liabilities		**2,619,798**	**2,213,065**
Payment of employees' end of service benefits	22	(11,663)	(11,251)
Changes in assets and liabilities:			
Statutory deposits with the UAE Central Bank	3	(306,489)	(415,411)
Certificate of deposits with the UAE Central Bank with original maturities of over 3 months	3	-	(250,000)
Due from other banks with original maturities of three months or more		(442,442)	-
Loans and advances, Islamic financing assets net of provision for impairment	5,6	(3,587,026)	(3,902,561)
Insurance contract assets and receivables		(27,147)	-
Other assets		(91,930)	(40,725)
Due to other banks (net of amounts due to the UAE Central Bank)	16	294,334	758,450
Insurance contract liabilities		(18,248)	-
Due to customers	17	3,168,697	1,582,261
Other liabilities	21	61,000	68,457
Net cash generated from operating activities		**1,658,884**	**2,285**
Investing activities			
Purchase of investment securities	7(c)	(478,159)	(1,253,955)
Purchase of property and equipment	8	(79,069)	(45,111)
Proceeds from maturity / disposal of investment securities	7(c)	163,187	151,667
Investments in RAKNIC, net	40	(203,956)	-
Proceeds from disposal of property and equipment		18,174	7,452
Net cash used in investing activities		**(579,823)**	**(1,139,947)**
Financing activities			
Debt securities issued	19	1,197,098	1,667,629
Dividend paid to equity holders of the Bank	12,33	(838,123)	(838,123)
Zakat paid		(378)	-
Net cash generated from financing activities		**358,597**	**829,506**
Net increase / (decrease) in cash and cash equivalents		**1,437,658**	**(308,156)**
Cash and cash equivalents at the beginning of the year		1,002,191	1,310,347
Cash and cash equivalents at the end of the year	**35**	**2,439,849**	**1,002,191**

The notes from 1 to 44 form an integral part of these consolidated financial statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

1. INCORPORATION AND PRINCIPAL ACTIVITIES

The National Bank of Ras Al-Khaimah ("the Bank") is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates ("UAE") in accordance with the UAE Federal law No. 8 of 1984 (as amended and listed on the Abu Dhabi Securities Exchange. 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.

UAE Federal Law No. 2 of 2015 (Companies Law) which is applicable to the Group has come into effect from 1 July 2015. The Group is currently assessing and evaluating the relevant provisions of the Companies Law. It has twelve months from the effective date of the Companies Law to fully comply with the Companies Law under the transitional provisions set out therein.

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

In the Ordinary General Assembly on 18 August 2014, the shareholders of the Bank approved the acquisition of a majority stake in Ras Al Khaimah National Insurance Company PSC (RAKNIC) at a cash price of AED 3.64 per share. The Bank received approval on 6 January 2015 from the Central Bank of UAE to proceed with the share purchase offer to the shareholders of RAKNIC. In May 2015 the Bank made a public offer to shareholders of RAKNIC to purchase their shareholding at a cash price of AED 3.64 per share. 79.23% of RAKNIC shareholders accepted this offer and on 28 May 2015 the Bank acquired 79.23% stake in RAKNIC, which has been accounted for as a subsidiary from that date – see note 40 for details of the business combination. Accordingly, the consolidated results include the results of RAKNIC from the date of acquisition to 31 December 2015 and include the assets less liabilities of RAKNIC on 31 December 2015.

At 31 December 2015, The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and five subsidiaries (together referred to as "the Group"). The consolidated financial statements for the year ended 31 December 2015 comprises the Bank and its 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	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.

2. 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 have been prepared on a going concern basis in accordance with International Financial Reporting Standards ("IFRS") and IFRS Interpretation Committee (IFRS IC) interpretations applicable to the companies reporting under IFRS. The consolidated financial statements are prepared under the historical cost convention except for held for trading and available-for-sale financial assets and derivative financial instruments which have been measured at fair value.

The preparation of consolidated financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 43.

STANDARDS, AMENDMENTS AND INTERPRETATIONS

Standards, amendments and interpretations that are effective for the Group's accounting period beginning on 1 January 2015

New standards and significant amendments to standards applicable to the Group	Effective date
Annual improvements 2010-2012 cycle • IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in applying the aggregation criteria to operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. • IAS 24, 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required. • IFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.	1 July 2014
Annual improvements 2011- 2013 • IFRS 13 'Fair value measurement' on clarification of the portfolio exemption in IFRS 13 - The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39, 'Financial instruments: Recognition and measurement' or IFRS 9, 'Financial instruments.' • IFRS 3 – clarifies that an obligation to pay contingent consideration is classified as financial liability or equity under the principles in IAS 32 and that all non-equity contingent consideration (financial and non-financial) is measured at fair value at each reporting date.	1 July 2014
IAS 19, Defined benefit plans: Employee contributions The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employees' working lives. Management should consider how it will apply that model.	1 July 2014

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(A) BASIS OF PREPARATION (continued)

STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

There is no material impact of the above amendments on the consolidated financial statements of the Group.

There are no other IFRSs or IFRIC interpretations that were effective for the first time for the financial year beginning on 01 January 2015 that have had a material impact on the Group's consolidated financial statements.

Standards, amendments and interpretations issued but not yet effective for the Group's accounting period beginning on 1 January 2015 and not early adopted

Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation. This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances.	1 January 2016
IAS 1 Amendments to IAS 1, 'Presentation of financial statements' Disclosure initiative The amendments clarify that it may be necessary to disaggregate some of the line items specified in IAS 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance.	1 January 2016
Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' regarding the sale or contribution of assets between an investor and its associate or joint venture These amendments address an inconsistency between IFRS 10 and IAS 28 in the sale or contribution of assets between an investor and its associate or joint venture. A full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if those assets are in a subsidiary. **The IASB has made amendments to IAS 27 Separate Financial Statements** which will allow entities to use the equity method in their separate financial statements to measure investments in subsidiaries, joint ventures and associates. IAS 27 currently allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendments introduce the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates). Entities wishing to change to the equity method must do so retrospectively.	1 January 2016

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(A) BASIS OF PREPARATION (continued)

STANDARDS, AMENDMENTS AND INTERPRETATIONS (continued)

Annual improvements 2012-2014 cycle • IFRS 7, 'Financial instruments: Disclosures' – The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets. • IAS 19, 'Employee benefits' – The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise. • IAS 34,'Interim financial reporting', regarding information disclosed elsewhere in the interim financial report. The amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.	1 January 2016
IFRS 15, 'Revenue from contracts with customers' This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises 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. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.	1 January 2018
IFRS 9, 'Financial instruments' The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities, there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018 Earlier application is permitted. If an entity elects to early apply, it must apply all of the requirements at the same time.

The Group has plans in place for adhering to the above new standards and amendments to published standards or IFRIC interpretations. IFRS 9 in particular is expected to have a pervasive impact on the Group's financial statements and the Group will commence evaluating the potential effects during the first half of the 2016.

There are no other applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2015 that would be expected to have a material impact on the consolidated financial statements of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(B) CONSOLIDATION

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

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.

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 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.

(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 recognized at fair value, which is the cash consideration to originate or purchase a loan including any transaction costs, and measured subsequently at amortised cost using the effective interest method.

The Group assesses at each 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(C) LOANS AND ADVANCES AND PROVISION FOR IMPAIRMENT (continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 2(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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(D) ISLAMIC FINANCING (continued)

(V) IJARA

Ijara financing is a finance lease agreement whereby the Bank (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: Trading securities, Held-to-maturity and available-for-sale. Management determines the classification of its investments at initial recognition.

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 income statement.

Foreign currency gains and losses arising on available-for-sale monetary financial assets are directly 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(E) INVESTMENT SECURITIES (continued)

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 impairead. 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, but through other comprehensive income. 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 2(c)).

(F) DUE FROM 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 2(c)).

(G) 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.

(H) 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 24.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(I) 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.

(J) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(K) 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 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' in the 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.

(L) 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 2(r)).

(M) 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.

(N) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(N) PROVISIONS AND CONTINGENT LIABILITIES (continued)

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.

(O) DUE TO CUSTOMERS

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

(P) 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 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 income statement other than for items presented in other comprehensive income.

(Q) 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 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.

(R) 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.

(S) 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(T) 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 Bank has the following business segments: retail banking, business banking and treasury.

(U) 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 ana 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.

(V) 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
- Motor insurance
- Casualty insurance
- Marine insurance
- Group life insurance
- Property insurance
- Fire insurance
- Medical insurance
- Engineering insurance

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(V) INSURANCE CONTRACTS (continued)

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 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 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 Company 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 Company 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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(V) INSURANCE CONTRACTS (continued)

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 policy holders.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (continued)

(V) INSURANCE CONTRACTS (continued)

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 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 financial statements.

3. CASH AND BALANCES WITH THE UAE CENTRAL BANK

	2015	2014
	AED'000	AED'000
Cash in hand	802,647	696,244
Balances with the UAE Central Bank	277,835	-
Statutory deposit with the UAE Central Bank	2,827,714	2,521,225
Certificates of deposit with the UAE Central Bank	1,000,000	1,000,000
	4,908,196	**4,217,469**

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 0.22% to 0.40% (2014: 0.40%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

4. DUE FROM OTHER BANKS

	2015	2014
	AED'000	AED'000
Placements with other banks	999,523	73,460
Demand deposits	495,858	124,036
Banker's acceptances	408,567	-
Clearing account balances	2,865	108,451
	1,906,813	**305,947**

Placements with other banks carry an interest rate of 0.08% to 4.25% (2014: 0% to 0.20%) per annum.

The geographical concentration is as follows

	2015	2014
	AED'000	AED'000
Banks in the UAE	1,042,530	182,211
Banks outside the UAE	864,283	123,736
	1,906,813	**305,947**

5. LOANS AND ADVANCES, NET

5(A) LOANS AND ADVANCES

	2015	2014
	AED'000	AED'000
Retail banking loans	26,113,282	24,785,457
Wholesale banking loans	2,429,414	1,020,245
Total loans and advances (5b)	**28,542,696**	**25,805,702**
Provision for impairment	(744,600)	(539,227)
Net loans and advances	**27,798,096**	**25,266,475**

5(B) ANALYSIS OF LOANS AND ADVANCES

	2015	2014
	AED'000	AED'000
Personal loans	6,361,103	6,936,049
Mortgage loans	4,098,837	3,897,384
Credit cards	3,379,655	3,037,809
Auto loans	3,158,750	2,833,664
RAKfinance business loans	6,221,087	5,766,567
Wholesale banking loans	2,429,414	1,020,245
Small and medium business loans	1,461,001	1,187,860
Other retail loans	1,432,849	1,126,124
Total loans and advances	**28,542,696**	**25,805,702**

5(C) PROVISION FOR IMPAIRMENT

	Retail Banking loans	Wholesale Banking loans	Total
31 December 2015	AED'000	AED'000	AED'000
Balance brought forward	508,841	30,386	539,227
Impairment charge/ (release) (Note 5(d))	1,076,563	31,898	1,108,461
Written off during the year	(872,702)	(30,386)	(903,088)
Balance carried forward	**712,702**	**31,898**	**744,600**
31 December 2014			
Balance brought forward	365,227	30,386	395,613
Impairment charge/ (release) (Note 5(d))	645,566	-	645,566
Written off during the year	(501,952)	-	(501,952)
Balance carried forward	**508,841**	**30,386**	**539,227**

5. LOANS AND ADVANCES (continued)

5(D) IMPAIRMENT CHARGE ON LOANS AND ADVANCES NET OF WRITE (BACK)/OFF

	Retail Banking loans	Wholesale Banking loans	Total
31 December 2015	AED'000	AED'000	AED'000
Impairment charge	1,076,563	31,898	1,108,461
Net recovery during the year	(53,056)	-	(53,056)
	1,023,507	**31,898**	**1,055,405**
31 December 2014			
Impairment charge	645,566	-	645,566
Net recovery during the year	(50,235)	-	(50,235)
	595,331	**-**	**595,331**

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

5(E) IMPAIRED LOANS AND ADVANCES PROVISION COVERAGE

	2015	2014
	AED'000	AED'000
Aggregate impaired loans (as reported to the UAE Central Bank)	914,368	618,762
Provision held	744,600	539,227
Coverage ratio	81.43%	87.15%

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.

6. ISLAMIC FINANCING ASSETS

6(A) ISLAMIC FINANCING ASSETS (INCLUDED IN LOANS AND ADVANCES-NOTE 5)

	2015	2014
	AED'000	AED'000
Islamic wholesale banking assets	73,252	-
Islamic retail financing assets	4,459,637	3,402,676
Total Islamic financing assets	4,532,889	3,402,676
Provision for impairment	(120,849)	(43,217)
	4,412,040	3,359,459

6(B) ANALYSIS OF ISLAMIC FINANCING ASSETS

	2015	2014
	AED'000	AED'000
Islamic salam personal finance	1,733,838	1,606,126
Islamic auto murabaha	1,156,072	876,169
Islamic business finance	1,025,967	649,578
Islamic Ijara Property finance	381,486	128,176
Islamic credit cards	161,531	142,381
Islamic wholesale banking	73,252	-
Islamic finance - Others	743	246
	4,532,889	3,402,676

7. INVESTMENT SECURITIES

7(A) INVESTMENTS

	2015	2014
	AED'000	AED'000
Securities available-for-sale		
Quoted equity securities	41,693	18,361
Unquoted equity securities	107	-
Quoted debt securities	74,746	41,839
	116,546	**60,200**
Held for trading		
Quoted mutual funds fair valued through profit and loss	3,966	-
Securities held-to-maturity		
Unquoted debt securities	220,380	-
Quoted debt securities*	3,774,089	3,725,089
	3,994,469	3,725,089
Investment securities	**4,114,981**	**3,785,289**

*Quoted debt securities with book value of AED 658.4 million as at 31 December 2015 have been given as collateral against repo borrowings of AED 591.4 million (refer note 16).

7. INVESTMENT SECURITIES (continued)

7(B) THE COMPOSITION OF THE INVESTMENT PORTFOLIO BY CATEGORY IS AS FOLLOWS:

	2015	2014
	AED'000	AED'000
Federal and local Government – UAE	702,109	705,654
Government related entity – UAE	1,034,464	1,131,698
Government – GCC	74,800	37,217
Government related entity – GCC	87,478	86,961
Banks and financial institutions – UAE	590,819	628,659
Banks and financial institutions – GCC	22,016	58,795
Banks and financial institutions – India	823,897	605,198
Banks and financial institutions – Turkey	220,836	-
Public limited companies – UAE	185,090	185,213
Public limited companies – India	327,706	327,533
Total Debt securities	**4,069,215**	**3,766,928**
Quoted equity securities	41,693	18,361
Quoted mutual funds	3,966	-
Unquoted equity securities	107	-
Total investment securities	**4,114,981**	**3,785,289**

7(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 2014	**42,268**	**-**	**2,653,684**	**2,695,952**
Purchases	50,676	9,359	1,193,920	1,253,955
Disposals / Matured	(31,210)	(9,359)	(106,837)	(147,406)
Net changes in fair value	(1,428)	-	-	(1,428)
Amortisation of discount/(premium)	(106)	-	(15,678)	(15,784)
At 31 December 2014	**60,200**	**-**	**3,725,089**	**3,785,289**
Investments acquired on RAKNIC acquisition	43,450	4,765	3,707	51,922
Purchases	36,986	-	441,173	478,159
Disposal /maturities	(3,673)	-	(159,514)	(163,187)
Net changes in fair value through OCI	(14,274)	-	-	(14,274)
Net changes in fair value through Profit and loss	(6,000)	(799)	-	(6,799)
Amortisation of premium	(143)	-	(15,986)	(16,129)
At 31 December 2015	**116,546**	**3,966**	**3,994,469**	**4,114,981**

8. PROPERTY AND EQUIPMENT

	Land and buildings	Leasehold improvements	Other fixed assets	Capital work in progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Cost					
1 January 2014	609,162	119,378	764,082	41,982	1,534,604
Additions	-	-	11,919	33,192	45,111
Transfers	39,778	5,204	19,448	(64,430)	-
Disposals/write off	(5,408)	(626)	(4,836)	-	(10,870)
31 December 2014	643,532	123,956	790,613	10,744	1,568,845
RAKNIC acquisition	16,068	-	3,141	-	19,209
Additions	-	71	36,800	42,198	79,069
Transfers	48,628	(25,258)	9,052	(32,422)	-
Disposals/write off	(20,121)	-	(5,130)	-	(25,251)
31 December 2015	**688,107**	**98,769**	**834,476**	**20,520**	**1,641,872**
Accumulated depreciation					
1 January 2014	66,255	72,602	366,874	-	505,731
Charge for the year	20,954	15,261	93,785	-	130,000
Disposals/write off	(533)	(424)	(3,643)	-	(4,600)
31 December 2014	86,676	87,439	457,016	-	631,131
Charge for the year	24,454	12,490	84,358	-	121,302
Transfers	30,899	(17,060)	(13,839)		-
Disposals/write off	(3,247)	-	(4,764)	-	(8,011)
31 December 2015	**138,782**	**82,869**	**522,771**	**-**	**744,422**
Net book amount					
31 December 2015	**549,325**	**15,900**	**311,705**	**20,520**	**897,450**
31 December 2014	**556,856**	**36,517**	**333,597**	**10,744**	**937,714**

Other fixed assets include computer equipment, furniture and fixtures, office equipment and motor vehicles. The balance of capital work in progress mainly comprises the costs pertaining to various system enhancements and set up costs for branches.

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FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

9. INSURANCE CONTRACT ASSETS AND RECEIVABLES

	2015	2014
	AED'000	AED'000
Reinsurance contract assets		
Claims reported unsettled	83,687	-
Claims incurred but not reported	11,044	-
Deferred insurance premium and commission	45,458	-
Capitation reserve	12,051	-
Deferred acquisition cost	13,329	-
Total reinsurance contract assets	**165,569**	-
Insurance related receivables		
Premium receivables	157,877	-
Reinsurance companies	9,427	-
Insurance agents and brokers	3,165	-
Gross insurance related receivables	170,469	-
Provision for doubtful receivables	(10,545)	-
Net insurance related receivables	**159,924**	-
Insurance contract assets and receivables	**325,493**	-

10. GOODWILL AND OTHER INTANGIBLE ASSETS

	Goodwill including insurance license	Intangibles-Customers Relationships	Goodwill and other intangible assets
	AED'000	AED'000	AED'000
Cost			
As at 1 January 2015	-	-	-
RAKNIC acquisition	166,386	12,835	179,221
As at 31 December 2015	**166,386**	**12,835**	**179,221**
Accumulated Amortization			
As at 1 January 2015	-	-	-
Charge for the period	-	(1,872)	(1,872)
As at 31 December 2015	-	**(1,872)**	**(1,872)**
Net Book amount			
As at 31 December 2015	**166,386**	**10,963**	**177,349**

10. GOODWILL AND OTHER INTANGIBLE ASSETS (continued)

Goodwill and RAKNIC's insurance license have not been segregated for this purpose. The goodwill including insurance license acquired through business combination with indefinite life had been accounted for on a provisional basis till Q3, 2015. As of 31 December 2015 goodwill acquired in the business combination, which represents the excess of cost of the business combination over the Group's interest in the fair value of the identifiable assets, including intangibles, liabilities and contingent liabilities of the acquiree, has been finalised as per IFRS 3 'business combination'.

11. OTHER ASSETS

	2015	2014
	AED'000	AED'000
Interest receivable	215,424	182,985
Profit receivable on Islamic financing assets	43,055	36,175
Prepayments and deposits	79,570	59,252
Interest rate swaps	22,625	12,789
Others	64,002	26,062
	424,676	**317,263**

Others includes AED 5.4 million real estate acquired on settlement of a loan given to a wholesale banking customer. This being a non-cash transaction, it has not been reflected in the consolidated statement of cash flows.

As per UAE Central Bank regulation, the Bank can hold the real estate assets for a maximum period of three years and can extend the holding after obtaining Central Bank approval. The Bank 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. The property was valued in December 2015.

12. SHARE CAPITAL

The authorised, issued and fully paid share capital comprises 1,676.25 million shares of AED 1 each (2014: 1,676.25 million shares of AED 1 each).

At the meeting of the shareholders held on 9 April 2015, the shareholders of the Bank approved a cash dividend of 50% of issued and paid up capital amounting to AED 838.12 (2013: AED 838.12 million) for the year 2014. These dividends were paid out during the second quarter of 2015.

13. SHARE PREMIUM

Share premium represents amounts received from shareholders in excess of the nominal value of the shares allotted to them. In accordance with the Articles of Association of the Bank, share premium is not available for distribution.

14. OTHER RESERVES

	Legal reserve	Voluntary reserve	General banking risk reserve	Credit risk reserve	Regulatory credit risk reserve	Treasury stock	Fair value reserve	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2014	**809,204**	**335,250**	**800,000**	**1,050,000**	**281,000**	**-**	**1,582**	**3,277,036**
Changes during the year	30,386	1,467	100,000	100,000	53,000	-	(1,428)	283,425
At 31 December 2014	**839,590**	**336,717**	**900,000**	**1,150,000**	**334,000**	**-**	**154**	**3,560,461**
Changes during the year	-	-	100,000	100,000	43,000	(2,397)	(11,358)	229,245
At 31 December 2015	**839,590**	**336,717**	**1,000,000**	**1,250,000**	**377,000**	**(2,397)**	**(11,204)**	**3,789,706**

In accordance with the UAE Federal Law No (2) of 2015, 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. 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.

In accordance with the Articles of Association of the bank, 10% of the Bank's net profit for the year is transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. This reserve is available for distribution. Additionally, the subsidiaries of the Bank also appropriate their profit to such reserves which are added to the Bank's voluntary reserve.

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 created 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 Central Bank of UAE.

Treasury stock elimination amount represents the shares of the National Bank of Ras Al-Khaimah (P.S.C) owned by RAK National Insurance Company P.S.C.

15. NON-CONTROLLING INTERESTS

	For the period 28 May to 31 December 2015	Year ended 31 December 2014
	AED'000	AED'000
Balance at the beginning of the year	-	-
RAKNIC acquisition *	36,178	-
Profit for the period	4,933	-
Other comprehensive loss for the period	(2,915)	-
Balance at the end of the year	**38,196**	-

*On 28 May 2015, the Bank acquired 79.23% stake in RAKNIC through public offer. Non-controlling interest on acquisition of AED 36.178 million amounts to 20.77% of the fair value of net assets on acquisition date.

16. DUE TO OTHER BANKS

	2015	2014
	AED'000	AED'000
Term deposits	462,942	744,067
Repurchase agreements (note 7)	591,403	-
Current account balance with the UAE Central Bank	-	16,946
Demand deposits	1,796	794
	1,056,141	**761,807**

17. DEPOSITS FROM CUSTOMERS

	2015	2014
	AED'000	AED'000
Time deposits	7,723,523	7,070,328
Current accounts	15,057,746	12,446,336
Savings deposits	3,740,321	3,866,388
Call deposits	1,298,515	1,268,356
	27,820,105	**24,651,408**

Time deposits include AED 484 million (2014: AED 296 million) held by the Bank as cash collateral for loans and advances granted to customers.

18. ISLAMIC CUSTOMER DEPOSITS (INCLUDED IN DEPOSITS FROM CUSTOMERS – NOTE 17)

	2015	2014
	AED'000	AED'000
Wakala investment deposits	1,728,368	1,534,249
Mudaraba term investment deposits	36,928	76,625
Qard - E - Hasan - current accounts	521,847	338,295
Mudaraba - current accounts	1,030,169	485,852
Mudaraba - savings deposits	142,794	153,499
Mudaraba - call deposits	30,633	3,032
	3,490,739	**2,591,552**

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FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

19. DEBT SECURITY IN ISSUE

	2015	2014
	AED'000	AED'000
USD 500 million medium term note issued at discount in June 2014	1,826,768	1,824,467
USD 300 million medium term note issued at premium in March 2015	1,110,252	-
Less : Own investment in debt security issued	(84,053)	(160,553)
Less : Debt security issue costs	(10,865)	(9,074)
Fair value adjustment on hedged debt security in issue	22,625	12,789
	2,864,727	**1,667,629**

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.

20. INSURANCE CONTRACT LIABILITIES AND PAYABLES

	2015	2014
	AED'000	AED'000
Insurance contract liabilities		
Claims reported unsettled	133,230	-
Claims incurred but not reported	25,544	-
Unearned premiums	160,908	-
Total insurance contract liabilities	**319,682**	**-**
Insurance related payables		
Creditors	7,834	-
Reinsurance payables	48,371	-
Commission payables	13,896	-
Total insurance related payables	**70,101**	**-**
Insurance contract liabilities and payables	**389,783**	**-**

21. OTHER LIABILITIES

	2015	2014
	AED'000	AED'000
Interest payable	34,332	26,099
Profit distributable in Islamic customer deposits	22,535	15,629
Accrued expenses	195,275	200,225
Managers cheques issued	119,380	148,036
Others	237,277	143,351
	608,799	**533,340**

22. PROVISION FOR EMPLOYEES' END OF SERVICE BENEFITS

	2015	2014
	AED'000	AED'000
At 1 January	84,852	73,312
Charge for the year	19,305	22,791
Amount acquired on RAKNIC acquisition	3,557	-
Payment during the year	(11,663)	(11,251)
At 31 December	**96,051**	**84,852**

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 2015, 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 using a discount rate of 4.16% (2014: 4.27%). 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 3.5 % (2014: 3.5%).

23. CONTINGENCIES AND COMMITMENTS

	2015	2014
	AED'000	AED'000
Irrevocable commitments to extend credit	37,646	36,069
Guarantees	723,420	678,812
Letters of credit	76,847	78,868
Acceptances	34,319	50,863
Capital commitments	19,018	10,182
	891,250	**854,794**

23. CONTINGENCIES AND COMMITMENTS (continued)

Letters of credit and acceptances are written undertakings by the Group 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 and acceptancs are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Guarantees commit the Group 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 8,618 million (2014 AED 7,768 million) are revocable at the option of the Group and not included in the above table.

24. FORWARD FOREIGN EXCHANGE AND INTEREST RATE SWAP CONTRACTS

Forward foreign exchange contracts comprise commitments to purchase foreign currencies on behalf of customers and in respect of the Group's undelivered spot transactions. Interest rate swap contracts comprise deals to convert fixed rate into a floating rate or vice versa.

Outstanding forward foreign exchange transactions at 31 December 2015 and 31 December 2014 are as follows:

	Contract amount	Fair value
	AED'000	AED'000
31 December 2015	745,446	235
31 December 2014	980,115	361

24. FORWARD FOREIGN EXCHANGE AND INTEREST RATE SWAP CONTRACTS (continued)

Outstanding interest rate swap transactions at 31 December 2015 and 31 December 2014 are as follows:

	Contract amount	Fair value
	AED'000	AED'000
31 December 2015	2,850,248	22,625
31 December 2014	1,674,888	12,789

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

25. INTEREST INCOME AND EXPENSE

	2015	2014
	AED'000	AED'000
Interest income		
Personal loans to nationals and expatriates	385,630	477,088
Mortgage loans	180,652	203,473
Credit cards	696,460	639,703
Auto loans	148,673	141,042
RAKFinance business loans	968,717	968,897
Wholesale banking loans	101,151	40,885
Small and medium business loans	164,982	106,749
Other retail banking loans	73,449	44,728
Investment securities	175,014	157,068
Deposits with the UAE Central Bank	3,745	4,576
Other banks	3,281	1,110
	2,901,754	**2,785,319**
Interest expense		
Due to customers	168,425	189,235
Debt securities issued	49,969	16,450
Borrowings from other banks	5,435	1,431
	223,829	**207,116**

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26. INCOME FROM ISLAMIC FINANCING AND DISTRIBUTION TO DEPOSITORS

	2015	2014
	AED'000	AED'000
Islamic salam personal finance	140,557	100,742
Islamic auto murabaha	78,084	47,737
Islamic business finance	174,025	58,229
Islamic investments	-	1,333
Islamic asset based finance	2,668	-
Islamic property finance	9,953	1,249
	405,287	**209,290**
Distribution of profit on Islamic term investment deposits	29,536	24,624
Distribution of profit on Islamic demand deposits	5,381	5,663
	34,917	**30,287**

27. NET FEES AND COMMISSION INCOME

	2015	2014
	AED'000	AED'000
Personal loans to nationals and expatriates	26,951	30,420
Mortgage loans	31,418	33,042
Credit cards	248,060	209,673
Auto loans	17,488	40,035
RAKFinance business loans	66,936	72,787
Wholesale banking loans	15,191	10,483
Small and medium business loans	44,401	40,326
Fiduciary income	79,051	82,797
Bancassurance	67,333	59,591
Others retail banking	85,421	73,791
	682,250	**652,945**

28. GROSS INSURANCE UNDERWRITING PROFIT

	2015	2014
	AED'000	AED'000
Gross insurance premium	238,395	-
Less: insurance premium ceded to reinsurers	(57,245)	-
Net retained premium	**181,150**	**-**
Net change in unearned premium reserve	(11,446)	-
Net insurance premium	**169,704**	**-**
Gross claims incurred	(183,998)	-
Insurance claims recovered from reinsurers	54,562	-
Net claims incurred	**(129,436)**	**-**
Gross commission earned	5,259	-
Less: commission incurred	(8,022)	-
Net commission incurred	**(2,763)**	**-**
Gross underwriting profit	**37,505**	**-**

The acquisition for RAKNIC was completed on 28 May 2015; the results for RAKNIC have been consolidated into those of the Group from that day onwards.

29. INCOME FROM INVESTMENTS

	Contract amount	Fair value
	AED'000	AED'000
Fair value (loss) / income	(6,800)	4,261
Dividend income	632	2,174
	(6,168)	**6,435**

30. OPERATING EXPENSES

	2015	2014
	AED'000	AED'000
Staff costs (Note 31)	614,646	612,814
Occupancy costs	94,634	93,119
Marketing expenses	32,648	35,500
Depreciation and amortisation	123,174	130,000
Communication costs	51,034	49,209
Legal and consultancy fees	52,687	50,512
Computer expenses	77,583	75,881
Outsourced staff costs	367,544	378,068
Others	64,557	80,116
	1,478,507	**1,505,219**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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31. STAFF COSTS

	2015	2014
	AED'000	AED'000
Salaries, allowances and bonus	564,362	557,162
Pension	5,073	11,594
End of service benefits	15,564	17,968
Others	29,647	26,090
	614,646	**612,814**

32. EARNINGS PER SHARE

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

	2015	2014
Net profit attributable to the shareholders for the year in AED 000's	1,400,387	1,454,602
Weighted average number of shares in issue in 000's	1,676,245	1,676,245
Basic earnings per share in AED	0.84	0.87

There were no potentially dilutive shares as at 31 December 2015 and 2014.

33. DIVIDENDS

At the meeting held on 2 February 2016, the Board of Directors proposed a cash dividend of 50 % amounting to AED 838.12 million of the issued and paid up capital in respect of the year ended 31 December 2015 (2014: 50% cash dividend amounting to AED 838.12 million).

Dividends are not accounted for until they have been approved at the Annual General Meeting and, accordingly, the proposed dividend will be accounted for as an appropriation of retained earnings of the year ended 31 December 2015 after it has been approved by the shareholders.

34. RELATED PARTY TRANSACTIONS AND BALANCES

Related parties comprise shareholders, 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 significant transactions with related parties in the ordinary course of business and on normal commercial terms.

34. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

The transactions and balances arising from these transactions are as follows:

	2015	2014
	AED'000	AED'000
Transactions during the year		
Interest/profit income	213	421
Interest/profit expense	14,245	8,588
Commission income	638	1,222
Directors' remuneration	7,592	8,286
Remuneration payable to key management personnel	12,772	19,586
Balances at 31 December:		
Loans and advances:		
- Shareholders and their related companies	129	-
- Directors and their related companies	131	220
- Key management personnel	5,050	6,386
	5,310	**6,606**
Due to customers:		
- Shareholders and their related companies	1,683,511	1,349,557
- Directors and their related companies	12,945	66,728
- Key management personnel	9,540	3,915
	1,705,996	**1,420,200**
Irrevocable commitments, contingent liabilities and forward contracts		
- Shareholders and their related companies	140,179	122,860
- Directors and their related companies	423	456
	140,602	**123,316**
Insurance related receivables		
- Due from policy holders	19,312	-
Insurance related payables		
- Due from policy holders	614	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2015 (continued)

35. CASH AND CASH EQUIVALENTS

	2015	2014
	AED'000	AED'000
Cash in hand (Note 3)	802,647	696,244
Current account balance with the UAE Central Bank (Note 3)	277,835	-
Due from other banks (Note 4)	1,906,813	305,947
	2,987,295	**1,002,191**
Less : Due from other banks with original maturity of 3 months or more	(547,446)	-
	2,439,849	**1,002,191**

36. SEGMENT ANALYSIS

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 small and medium entities current accounts, savings accounts, deposits, credit and debit cards, individual and small and medium entities' 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 customers and financial institutions; and
- 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.
- 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.

36. SEGMENT ANALYSIS (continued)

	Retail banking	Wholesale banking	Treasury and others	Insurance business	Unallocated Cost	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2015						
Net external interest income	2,477,345	84,949	113,596	2,035	-	2,677,925
Income from Islamic financing net of distribution to depositors	367,702	2,668	-	-	-	370,370
Transfer pricing income / expense	(36,795)	1,795	35,000	-	-	-
Net Interest /Income from Islamic financing	**2,808,252**	**89,412**	**148,596**	**2,035**	**-**	**3,048,295**
Non interest income	763,815	20,569	69,353	37,200	-	890,937
Operating income	**3,572,067**	**109,981**	**217,949**	**39,235**	**-**	**3,939,232**
Operating expense excluding depreciation and amortisation	(1,074,113)	(28,054)	(7,032)	(23,613)	(222,521)	(1,355,333)
Depreciation and amortisation	(49,815)	(934)	(149)	(2,950)	(69,326)	(123,174)
Total Operating expense	**(1,123,928)**	**(28,988)**	**(7,181)**	**(26,563)**	**(291,847)**	**(1,478,507)**
Impairment charge, net	(1,023,507)	(31,898)	-	-	-	(1,055,405)
Net profit / (loss)	**1,424,632**	**49,095**	**210,768**	**12,672**	**(291,847)**	**1,405,320**
Segment assets	26,447,018	2,809,313	9,554,086	787,129	-	39,597,546
Unallocated assets	-	-	-	-	955,508	955,508
Total assets	**26,447,018**	**2,809,313**	**9,554,086**	**787,129**	**955,508**	**40,553,054**
Segment liabilities	24,851,639	2,578,443	4,528,642	469,913		32,428,637
Unallocated liabilities	-	-	-	-	406,969	406,969
Total liabilities	**24,851,639**	**2,578,443**	**4,528,642**	**469,913**	**406,969**	**32,835,606**
31 December 2014						
Net external interest income	2,424,960	28,877	124,366	-	-	2,578,203
Income from Islamic financing net of distribution to depositors	179,003	-	-	-	-	179,003
Transfer pricing income / expense	(27,891)	5,235	22,656	-		
Net Interest /Income from Islamic financing	**2,576,072**	**34,112**	**147,022**	-	**-**	**2,757,206**
Non interest income	729,267	14,346	54,333	-	-	797,946
Operating income	**3,305,339**	**48,458**	**201,355**	-		**3,555,152**
Operating expense excluding depreciation and amortisation	(1,078,835)	(16,313)	(6,102)	-	(273,969)	(1,375,219)
Depreciation and amortisation	(58,665)	(262)	(58)	-	(71,015)	(130,000)
Total Operating expense	**(1,137,500)**	**(16,575)**	**(6,160)**	-	**(344,984)**	**(1,505,219)**
Impairment charge, net	(595,331)	-	-	-		(595,331)
Net profit / (loss)	**1,572,508**	**31,883**	**195,195**	-	**(344,984)**	**1,454,602**
Segment assets	25,267,315	990,528	7,573,202	-		33,831,045
Unallocated assets	-	-	-	-	999,112	999,112
Total assets	**25,267,315**	**990,528**	**7,573,202**	**-**	**999,112**	**34,830,157**
Segment liabilities	21,819,287	1,741,014	3,676,715	-		27,237,016
Unallocated liabilities	-	-	-	-	462,020	462,020
Total liabilities	**21,819,287**	**1,741,014**	**3,676,715**	**-**	**462,020**	**27,699,036**

37. FIDUCIARY ACTIVITIES

The Group holds assets in a fiduciary capacity for its customers without recourse to itself. At 31 December 2015, such assets amounted to AED 1,786 million (2014: AED 1,775.5million) and are excluded from these consolidated financial statements of the Bank.

38. 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.

39. RECLASSIFICATION

Previous year's numbers are reclassified and regrouped to conform to the current year classification.

40. 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 the 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:

40. BUSINESS COMBINATION (continued)

	AED'000	AED'000
Consideration		
Total cash consideration (a)		317,244
Recognised amounts of identifiable intangible assets acquired	**Book value**	**Fair Value**
Property and equipment	9,092	19,209
Investment securities	54,320	34,320
Cash and cash equivalents	113,288	113,288
Net receivables	56,914	7,384
Value of identifiable net assets on acquisition - (b)	**233,614**	**174,201**
Fair value of identifiable net assets acquired : (b x 79.23%) - (c)		**138,023**
Intangibles :		
Customer relationships		12,835
Total Intangibles (Note 10) - (d)		**12,835**
Goodwill including insurance license (Note 10) : (a) - (c) - (d)		**166,386**
Cash consideration transferred		317,244
Cash & cash equivalents acquired		(113,288)
Net cash out flow on RAKNIC acquisition		**203,956**

The insurance business has reported an operating income of AED 39,235 thousand and net profit of AED 12,672 thousand since 28 May 2015. If the acquisition had occurred on 01 January 2015, the acquired operating income and net profit would have been estimated at AED 47.6 million and AED 23.1 million respectively.

In addition to the insurance license acquired, the goodwill acquired can be attributed to the well positioned business of RAKNIC which has an established franchise and reputation in UAE. RAKNIC has a sound management team and skilled workforce with strong sales and risk management skills. There are substantial synergies of the acquisition with the Bank which will be exploited in the future.

41. FINANCIAL RISK MANAGEMENT

41.1 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 Groups'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.

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 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 and wholesale banking assets.

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

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

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.

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 CREDIT RISK (continued)

41.2.1 MAXIMUM EXPOSURE TO CREDIT RISK BEFORE COLLATERAL HELD OR OTHER CREDIT ENHANCEMENTS

	Maximum exposure	
	2015	2014
	AED'000	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from banks	1,906,813	305,947
Loans and advances:		317,244
Loans to retail customers	25,400,580	24,276,616
Loans to wholesale banking customers	2,397,516	989,859
Insurance contract assets	254,655	-
Investment securities	4,114,981	3,785,289
Other assets	282,280	239,476
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other off balance sheet items	872,232	844,612
	35,229,057	**30,441,799**

The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2015 and 2014 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% (2014: 93%) 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, represent a significant portion 31% (2014: 30 %) of loans and advances.
- 6.2 % (2014: 7.2%) 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.
- 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.

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 CREDIT RISK (continued)

41.2.2 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 2015		31 December 2014	
	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	25,683,132	1,906,813	24,050,663	305,947
Past due but not impaired	1,945,196	-	1,136,277	-
Individually impaired	914,368	-	618,762	-
Gross	**28,542,696**	**1,906,813**	**25,805,702**	**305,947**
Less: allowance for impairment	(744,600)	-	(539,227)	-
Net	**27,798,096**	**1,906,813**	**25,266,475**	**305,947**

Neither Past Due Nor Impaired

	31 December 2015		31 December 2014	
	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
Loans and advances				
- Retail loans	23,429,804	-	23,070,028	-
- Wholesale Banking loans	2,253,328	-	980,635	-
Due from banks	-	1,906,813	-	305,947
Gross	**25,683,132**	**1,906,813**	**24,050,663**	**305,947**

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 installments past due. All loans that are not in default of interest payment and installment are graded as bucket 0, while loans and advances that are in default of interest payment and installments are graded upwards from bucket 1 onwards, depending on the number of days past due. The wholesale banking credit matrix is used to rate Wholesale Banking loans under various characteristics.

There are nine categories of performing loans and one category of non-performing loans.

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 CREDIT RISK (continued)

41.2.2 LOANS AND ADVANCES TO CUSTOMERS AND AMOUNTS DUE FROM BANKS (continued)

These ratings 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 installments. The credit policy has set internal lending limits for various industry exposures. The wholesale banking loan portfolio is reviewed on a quarterly basis.

AMOUNTS DUE FROM BANKS

The Group held amounts due from banks of AED 1,907 million (2014: 306 million) which represents its maximum credit exposure on these assets. The balance due from banks includes AED 999.5 million (2014: AED 73.5 million) placements with banks and banker's acceptances of AED 408.6 million (2014: Nil). 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:

	31 December 2015			31 December 2014		
	Retail loans	Wholesale Banking loans	Total	Retail loans	Wholesale Banking loans	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Past due up to 30 days	1,067,084	62,905	1,129,989	697,801	1,316	699,117
Past due 30 to 60 days	450,914	29,907	480,821	272,203	508	272,711
Past due more than 60 days	330,346	4,040	334,386	164,449	-	164,449
Total	**1,848,344**	**96,852**	**1,945,196**	**1,134,453**	**1,824**	**1,136,277**

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:

	31 December 2015			31 December 2014		
	Retail loans	Wholesale Banking loans	Total	Retail loans	Wholesale Banking loans	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Individually impaired loans	835,134	79,234	914,368	580,976	37,786	618,762
Fair value of collateral	(268,037)	-	(268,037)	(220,415)	(9,570)	(229,985)
Net	**567,097**	**79,234**	**646,331**	**360,561**	**28,216**	**388,777**

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 CREDIT RISK (continued)

41.2.2 LOANS AND ADVANCES TO CUSTOMERS AND AMOUNTS DUE FROM BANKS (continued)

The total impairment provision for loans and advances is AED 744.6 million (2014: AED 539.2 million) of which AED 657.9 million (2014: AED 436.2 million) represents provision in respect of the individually impaired loans and advances and the remaining AED 86.7 million (2014: AED 103.0 million) represents the portfolio provision to reflect the risk inherent in the Group's loan portfolio. AED 268.0 million fair value of collateral shown above under retail loans represents AED 259.7 million fair value of collateral against mortgage loans and AED 8.3 million against small and medium business 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 has reported only restructured loan with financial difficulties under this note. The table below presents loans restructured during the year 2015 and 2014.

Loans restructured during the year	2015		2014	
Product	No of Accounts	Loan Amount	No of Accounts	Loan Amount
		AED'000		AED'000
Personal loans to nationals and expatriates	692	394,083	867	500,058
Mortgage loans	8	12,999	13	34,207
Credit cards	1,266	54,724	995	37,120
Auto loans	600	53,270	198	15,847
Small and medium business loan	14	11,722	-	-
Wholesale banking loans	8	36,484	-	-
RAKfinance business loans	373	202,009	272	113,024
Total	**2,961**	**765,291**	**2,345**	**700,256**

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 CREDIT RISK (continued)

41.2.2 LOANS AND ADVANCES TO CUSTOMERS AND AMOUNTS DUE FROM BANKS (continued)

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

Restructured loans	2015		2014	
Product	No of Accounts	Loan Amount	No of Accounts	Loan Amount
		AED'000		AED'000
Personal loans to nationals and expatriates	1,939	1,123,081	2,356	1,383,423
Mortgage loans	60	137,969	75	187,085
Credit cards	3,873	71,472	3,448	50,798
Auto loans	799	63,207	313	20,105
Small and medium business loan	14	10,076	-	-
Wholesale banking loans	9	36,053	1	3,312
RAKfinance business loans	754	315,923	588	208,240
Total	**7,448**	**1,757,781**	**6,781**	**1,852,963**

41.2.3 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 an analysis of debt securities by rating agency designation at 31 December 2015 and 2014, based on Moody's and Fitch ratings or their equivalent.

	2015	2014
	AED'000	AED'000
AA to A-	1,109,814	1,058,102
BBB+ to BBB-	1,840,778	1,798,246
Unrated	1,118,623	910,580
Total	**4,069,215**	**3,766,928**

The unrated securities include bonds/ Sukuks of Dubai Department of Finance amounting to AED 702.1million (2014 AED 705.7 million), Emirates Airlines amounting to AED 192.4 million (2014 204.9 million), Credit linked notes amounting to AED 220.4 million (2014: Nil) and Nakheel (Dubai government related entity) Sukuk amounting to 3.7million (2014: Nil). The management is comfortable with the above unrated instruments.

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 CREDIT RISK (continued)

41.2.4 REPOSSESSED COLLATERAL

The Group occasionally takes possession of mortgaged property which is held as collateral for loans. During the year, the Group took possession of a property with market value of AED 5.4 million mortgaged by a wholesale banking customer. The acquired property is reported under other assets of the Group's balance sheet.

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.

41.2.5 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 2015 and 2014.

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
31 December 2015	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Due from banks	1,042,529	668,062	196,222	1,906,813
Loans and advances				
- Retail banking	25,128,442	124,287	147,851	25,400,580
- Wholesale banking	1,670,397	632,224	94,895	2,397,516
Insurance contract assets	249,036	-	5,619	254,655
Investment securities				
- Held-to-maturity	2,475,385	220,836	1,298,248	3,994,469
- Available-for-sale	78,898		37,648	116,546
- Held for trade	3,966			3,966
Other assets	282,280			282,280
Total	**30,930,933**	**1,645,409**	**1,780,483**	**34,356,825**
31 December 2014	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Due from banks	182,211	114,373	9,363	305,947
Loans and advances				
- Retail Banking	24,020,000	89,876	166,740	24,276,616
- Wholesale Banking	986,980	-	2,879	989,859
Investment securities				
- Held-to-maturity	2,609,385	-	1,115,704	3,725,089
- Available-for-sale	60,200	-	-	60,200
Other assets	239,476	-	-	239,476
Total	**28,098,252**	**204,249**	**1,294,686**	**29,597,187**

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 CREDIT RISK (continued)

41.2.5 CONCENTRATION OF RISKS OF FINANCIAL ASSETS WITH CREDIT RISK EXPOSURE (continued)

Off balance sheet items

	UAE	OECD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2015				
Credit commitments	37,646	-	-	37,646
Guarantees, acceptances and other exposures	813,401	5,381	15,804	834,586
	851,047	**5,381**	**15,804**	**872,232**
31 December 2014				
Credit commitments	35,521	-	548	36,069
Guarantees, acceptances and other exposures	799,607	3,085	5,851	808,543
	835,128	**3,085**	**6,399**	**844,612**

41.2.6 CONCENTRATION OF CREDIT RISK BY INDUSTRY

The following table breaks down the bank's credit exposures on loans and advances, debt securities and off balance sheet items categorised by industry as of 31 December 2015 and 2014.

On balance sheet items

	Loans and advances	Investment securities	Due from banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2015						
Agriculture, fishing & related activities	96	-	-	96	156	252
Crude oil , gas, mining & quarrying	4,827	-	-	4,827	117,530	122,357
Manufacturing	726,987	218,264	-	945,251	28,423	973,674
Electricity & water	5,220	650,730	-	655,950	1,595	657,545
Construction	684,085	190,959	-	875,044	78,775	953,819
Trading	6,374,785	-	-	6,374,785	186,546	6,561,331
Transport, storage & communication	1,341,607	353,592	-	1,695,199	25,068	1,720,267
Financial Institutions	1,027,995	1,675,996	1,906,813	4,610,804	112,213	4,723,017
Services	3,356,314	248,531	-	3,604,845	246,545	3,851,390
Government	-	776,909		776,909	31,785	808,694
Retail and consumer banking	15,020,780	-	-	15,020,780	43,596	15,064,376
Total exposures	**28,542,696**	**4,114,981**	**1,906,813**	**34,564,490**	**872,232**	**35,436,722**

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 CREDIT RISK (continued)

41.2.6 CONCENTRATION OF CREDIT RISK BY INDUSTRY (continued)

On balance sheet items

	Loans and advances	Investment securities	Due from banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2014						
Agriculture, fishing & related activities	-	-	-	-	126	126
Crude oil , gas, mining & quarrying	-	-	-	-	107,607	107,607
Manufacturing	510,706	215,701	-	726,407	35,407	761,814
Electricity & water	4,144	736,577	-	740,721	1,575	742,296
Construction	490,065	185,212	-	675,277	88,412	763,689
Trading	5,374,750	-	-	5,374,750	165,353	5,540,103
Transport, storage & communication	1,131,950	365,594	-	1,497,544	24,889	1,522,433
Financial Institutions	192,006	1,311,012	305,947	1,808,965	95,184	1,904,149
Services	2,711,332	228,322	-	2,939,654	269,868	3,209,522
Government	-	742,871	-	742,871	14,199	757,070
Retail and consumer banking	15,390,749	-	-	15,390,749	41,992	15,432,741
Total exposures	**25,805,702**	**3,785,289**	**305,947**	**29,896,938**	**844,612**	**30,741,550**

41.2.7 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 2015				
Manufacturing	-	12,448	12,448	12,655
Construction	1,212	20,718	21,930	20,674
Trading	29,314	276,353	305,667	252,653
Transport, storage & communication	3,543	45,554	49,097	45,425
Services	5,769	68,587	74,356	71,458
Retail and consumer banking	28,323	422,547	450,870	255,038
Total impaired loans	**68,161**	**846,207**	**914,368**	**657,903**

41. FINANCIAL RISK MANAGEMENT (continued)

41.2 CREDIT RISK (continued)

41.2.7 INDIVIDUALLY IMPAIRED LOANS BY INDUSTRY (continued)

	Less than 90 days	Overdue above 90 Days	Total	Specific Provision
	AED'000	AED'000	AED'000	AED'000
31 December 2014				
Manufacturing	-	2,758	2,758	2,689
Construction	1,323	39,959	41,282	33,913
Trading	276	47,193	47,469	47,469
Transport, storage & communication	-	6,436	6,436	6,436
Financial institution	-	157	157	157
Services	1,242	23,543	24,785	24,562
Retail and consumer banking	15,253	480,622	495,875	321,001
Total impaired loans	**18,094**	**600,668**	**618,762**	**436,227**

41.2.8 OFFSETTING FINANCIAL INSTRUMENTS

The Group has not entered in significant master netting arrangement with counter parties which enable settlement of transactions on a net basis. In absence of such agreements the financial asset and liabilities are settled on gross basis.

41.3 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 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 only exposure to derivatives is in respect of forward exchange contracts which are entered to meet customer needs or interest rate swaps for economic hedging purposes.

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 MARKET RISK (continued)

41.3.1 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.

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.

41.3.2 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 gap report and stress tests to analyse the impact of anticipated movements in interest rates.

Financial assets that are not subject to any interest-rate risk mainly comprise investments in equity investments, cash, balances with central banks excluding certificates of deposit and property and equipment and other assets.

The Group uses financial simulation tools to periodically measure and monitor interest-rate sensitivity.

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.

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 MARKET RISK (continued)

41.3.2 INTEREST RATE RISK (continued)

	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 2015							
Assets							
Cash and balances with the UAE Central Bank	200,000	800,000	-	-	-	3,908,196	4,908,196
Due from other banks	1,164,983	259,107	21,263	-	-	461,460	1,906,813
Loans and advances	5,405,661	5,372,531	7,175,220	2,426,045	7,418,639	-	27,798,096
Investment securities	6,263	274,470	619,188	966,813	2,202,481	45,766	4,114,981
Insurance contract assets and receivables	-	-	-	-	-	325,493	325,493
Goodwill, property and equipment and other assets	-	-	-	-		1,499,475	1,499,475
Total	**6,776,907**	**6,706,108**	**7,815,671**	**3,392,858**	**9,621,120**	**6,240,390**	**40,553,054**
Liabilities and shareholders' equity							
Due to other banks	783,228	271,117	-	-	-	1,796	1,056,141
Due to customers	15,308,817	3,640,828	452,357	-	-	8,418,103	27,820,105
Debt securities issued[1]	2,864,727	-	-	-	-		2,864,727
Insurance contract liabilities and payables	-	-	-	-	-	389,783	389,783
Other liabilities and provision for employees' end of service benefits	-	-	-	-	-	704,850	704,850
Shareholders' equity	-	-	-	-	-	7,717,448	7,717,448
Total	**18,956,772**	**3,911,945**	**452,357**	-	-	**17,231,980**	**40,553,054**
Interest rate sensitivity gap	**(12,179,865)**	**2,794,163**	**7,363,314**	**3,392,858**	**9,621,120**		

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

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 MARKET RISK (continued)

41.3.2 INTEREST RATE RISK (continued)

	Less than 3 months	From 3 months to 1 year	Over 1 year to3 years	Over 3 years to 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 2014							
Assets							
Cash and balances with the UAE Central Bank	-	1,000,000	-	-	-	3,217,469	4,217,469
Due from other banks	73,460	-	-	-	-	232,487	305,947
Loans and advances	8,281,631	4,024,639	7,882,344	1,047,607	4,030,254	-	25,266,475
Investment securities	-	147,527	644,204	359,779	2,615,418	18,361	3,785,289
Property and equipment and other assets	-	-	-	-	-	1,254,977	1,254,977
Total	**8,355,091**	**5,172,166**	**8,526,548**	**1,407,386**	**6,645,672**	**4,723,294**	**34,830,157**
Liabilities and shareholders' equity							
Due to other banks	744,067	-	-	-	-	17,740	761,807
Due to customers	14,724,181	3,238,346	315,000	-	-	6,373,881	24,651,408
Debt securities issued	1,667,629	-	-	-	-		1,667,629
Other liabilities and provision for employees' end of service benefits	-	-	-	-	-	618,192	618,192
Shareholders' equity	-	-	-	-	-	7,131,121	7,131,121
Total	**17,135,877**	**3,238,346**	**315,000**	-	-	**14,140,934**	**34,830,157**
Interest rate sensitivity gap	**(8,780,786)**	**1,933,820**	**8,211,548**	**1,407,386**	**6,645,672**		

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 MARKET RISK (continued)

41.3.2 INTEREST RATE RISK (continued)

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:

	2015	2014
	AED'000	AED'000
Fluctuation in interest rates by 25 bps	26,325	18,309

The interest rate sensitivities set out above are worst case scenarios and employ simplified calculations. They are based on the gap between AED 13,483 million (2014: AED 13,527 million) of interest bearing assets with maturities within one year and AED 22,869 million (2014: AED 20,374 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.

41.3.3 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.

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41. FINANCIAL RISK MANAGEMENT (continued)

41.3 MARKET RISK (continued)

41.3.3 CURRENCY RISK (continued)

At 31 December 2015, the Bank had the following net exposures denominated in foreign currencies:

On balance sheet items

At 31 December 2015	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
Assets				
Cash and balances with the UAE Central Bank	4,400,330	507,473	393	4,908,196
Due from other banks	748,695	1,032,713	125,405	1,906,813
Loans and advances	26,109,784	1,676,719	11,593	27,798,096
Insurance contract assets	254,655	-	-	254,655
Investment securities	49,473	4,065,508	-	4,114,981
Other assets	223,467	58,813	-	282,280
Total	**31,786,404**	**7,341,226**	**137,391**	**39,265,021**
Liabilities				
Due to other banks	100,000	955,246	895	1,056,141
Due to customers	23,789,921	3,231,781	798,403	27,820,105
Debt securities issued	-	2,864,727	-	2,864,727
Insurance contract liabilities & payables	389,783	-	-	389,783
Other liabilities	597,864	9,971	964	608,799
Total liabilities	**24,877,568**	**7,061,725**	**800,262**	**32,739,555**
Net position of financial instruments	**6,908,836**	**279,501**	**(662,871)**	**6,525,466**
At 31 December 2014				
Total assets	**28,564,166**	**5,201,198**	**49,292**	**33,814,656**
Total liabilities	**21,144,901**	**5,897,934**	**583,204**	**27,626,039**
Net position of financial instruments	**7,419,265**	**(696,736)**	**(533,912)**	**6,188,617**

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 2015 and 2014. All currency positions are within limits laid down by ALCO.

41. FINANCIAL RISK MANAGEMENT (continued)

41.3 MARKET RISK (continued)

41.3.3 CURRENCY RISK (continued)

Off-balance sheet items

	AED	USD	Others	Total
At 31 December 2015	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Credit commitments	37,646	-	-	37,646
Guarantees, acceptances, letter of credit and other exposures	541,811	242,307	50,468	834,586
Total	**579,457**	**242,307**	**50,468**	**872,232**
At 31 December 2014				
Credit commitments	36,069	-	-	36,069
Guarantees, letter of credit, acceptances and other exposures	539,209	220,584	48,750	808,543
	575,278	**220,584**	**48,750**	**844,612**

Foreign exchange contracts

	AED	USD	Others	Total
At 31 December 2015	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Foreign exchange contracts	408	73,481	671,557	745,446
At 31 December 2014				
Foreign exchange contracts	905	428,159	551,051	980,115

41.4 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.

41. FINANCIAL RISK MANAGEMENT (continued)

41.4 LIQUIDITY RISK (continued)

41.4.1 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 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, a 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. The Group may raise further amounts through EMTNs.

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 repoed 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 and has set up internal Management Action Triggers to take suitable corrective actions once the internal thresholds have been reached.

At 31 December 2015, 24.9% (2014: 21.7%) of the Group's total assets was in liquid assets. The LSRR as at 31 December 2015 stood at 83.3% (2014: 87.9%) which is significantly lower than the maximum requirement of 100%. Similarly the Liquid Assets Ratio of the Group as at 31 December 2015, stood at 19.1% (2014: 20.0%) also reflecting a healthy liquidity position.

41. FINANCIAL RISK MANAGEMENT (continued)

41.4 LIQUIDITY RISK (continued)

41.4.1 LIQUIDITY RISK MANAGEMENT PROCESS (continued)

	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 2015						
Assets						
Cash and balances with the UAE Central Bank	4,108,196	800,000	-	-	-	4,908,196
Due from other banks	1,626,443	259,107	21,263	-	-	1,906,813
Loans and advances	5,648,285	5,324,457	7,691,173	2,733,383	6,400,798	27,798,096
Investment securities	126,808	237,407	619,325	883,907	2,247,534	4,114,981
Insurance contract assets and receivables	60,397	247,300	14,638	2,704	454	325,493
Goodwill and other intangible assets	-	-	-	-	177,349	177,349
Property and equipment, and other assets	321,791	91,642	9,059	2,184	897,450	1,322,126
Total	**11,891,920**	**6,959,913**	**8,355,458**	**3,622,178**	**9,723,585**	**40,553,054**
Liabilities and shareholders' equity						
Due to other banks	491,227	564,914	-	-	-	1,056,141
Due to customers	23,726,920	3,626,696	466,489	-	-	27,820,105
Debts security in issue	-	-	-	2,864,727	-	2,864,727
Insurance contract liabilities and payables	-	389,783	-	-	-	389,783
Other liabilities and provision for employees' end of service benefits	607,263	1,536	-	-	96,051	704,850
Shareholders' equity	-	-	-	-	7,717,448	7,717,448
Total	**24,825,410**	**4,582,929**	**466,489**	**2,864,727**	**7,813,499**	**40,553,054**
Net liquidity gap	(12,933,490)	2,376,984	7,888,969	757,451	1,910,086	-
At 31 December 2014						
Total assets	**8,300,414**	**5,373,697**	**9,182,821**	**1,837,732**	**10,135,493**	**34,830,157**
Total liabilities and equity	**22,403,903**	**3,239,507**	**315,000**	**1,667,629**	**7,204,118**	**34,830,157**
Net liquidity gap	**(14,103,489)**	**2,134,190**	**8,867,821**	**170,103**	**2,931,375**	**-**

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.

41. FINANCIAL RISK MANAGEMENT (continued)

41.4 LIQUIDITY RISK (continued)

41.4.2 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 that will be settled on a gross basis 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 contract. Cash flows from interest rate swap not included in below note.

Since the interest swap does not have any significant impact on liquidity they have not been considered in the below table:

	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
At 31 December 2015						
Foreign exchange contracts						
– Outflow	468,747	55,742	220,957	-	-	745,446
– Inflow	468,747	55,742	220,957	-	-	745,446
At 31 December 2014						
Foreign exchange contracts:						
– Outflow	892,663	87,452	-	-	-	980,115
– Inflow	892,663	87,452	-	-	-	980,115

41.4.3 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 2015				
Credit commitments	37,646	-	-	37,646
Guarantees, acceptances and other financial facilities	533,496	126,750	174,340	834,586
Total	**571,142**	**126,750**	**174,340**	**872,232**
At 31 December 2014				
Credit commitments	35,096	973	-	36,069
Guarantees, acceptances and other financial facilities	682,951	125,592	-	808,543
Total	**718,047**	**126,565**	**-**	**844,612**

41. FINANCIAL RISK MANAGEMENT (continued)

41.5 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December 2015, the carrying value of the Group's financial assets and liabilities measured at amortised cost approximate their fair values, except for the below mentioned financial asset:

	Fair value		Carrying value	
	2015	2014	2015	2014
	AED'000	AED'000	AED'000	AED'000
Financial assets				
Investment securities	4,193,318	3,916,880	4,114,981	3,785,289

INVESTMENT SECURITIES

Investment securities comprise mainly of interest-bearing debt instruments that are held-to-maturity or instruments is based on quoted market prices. Investment in equity shares is based on quoted prices.

41.6 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
At 31 December 2015					
Assets					
Investment securities	3,994,469	116,546	-	3,966	4,114,981
Derivative financial instruments	-	-	22,625	235	22,860
Cash and balances with the UAE central Bank	4,908,196	-	-	-	4,908,196
Due from other Banks	1,906,813	-	-	-	1,906,813
Loans and advances	27,798,096	-	-	-	27,798,096
Insurance contract assets and receivables	254,655	-	-	-	254,655
Other assets	282,280	-	-	-	282,280
Total financial assets	**39,144,509**	**116,546**	**22,625**	**4,201**	**39,287,881**

41. FINANCIAL RISK MANAGEMENT (continued)

41.6 FINANCIAL INSTRUMENTS (continued)

	Financial liabilities at amortised cost
	AED'000
Liabilities	
Due to banks	1,056,141
Due to customer	27,820,105
Debt securities issued	2,864,727
Insurance contract liabilities and payables	389,783
Other liabilities	56,867
Total financial liabilities	**32,187,623**

	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
At 31 December 2014					
Assets					
Investment securities	3,725,089	60,200	-	-	3,785,289
Derivative financial instruments	-	-	12,789	361	13,150
Cash and balances with the UAE central Bank	4,217,469	-	-	-	4,217,469
Due from other Banks	305,947	-	-	-	305,947
Loans and advances	25,266,475	-	-	-	25,266,475
Other assets	239,476	-	-	-	239,476
Total financial assets	**33,754,456**	**60,200**	**12,789**	**361**	**33,827,806**

	Financial liabilities at amortised cost
	AED'000
Liabilities	
Due to banks	761,807
Due to customer	24,651,408
Debt securities issued	1,667,629
Other liabilities	41,728
Total financial liabilities	**27,122,572**

41. FINANCIAL RISK MANAGEMENT (continued)

41.7 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.

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41. FINANCIAL RISK MANAGEMENT (continued)

41.7 FAIR VALUE HIERARCHY (continued)

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 2015				
Asset at fair value				
Available for sale financial assets	-	-	-	-
Investment securities – debt	74,746	-	-	74,746
Investment securities – Equity	28,693	-	107	28,800
Foreign exchange contracts	-	235	-	235
Derivative financial instruments	-	22,625	-	22,625
Held for trading				
Investments market fund	3,966	-	-	3,966
Asset at amortised cost		-		
Investment securities	3,865,421	-	220,385	4,085,806
	3,972,826	**22,860**	**220,492**	**4,216,178**
31 December 2014				
Asset at fair value				
Available for sale financial assets	-	-	-	-
Investment securities – debt	41,839	-	-	41,839
Investment securities – Equity	18,361	-	-	18,361
Foreign exchange contracts	-	361	-	361
Derivative financial instruments	-	12,789	-	12,789
Asset at amortised cost				
Investment securities	3,856,680	-	-	3,856,680
	3,916,880	**13,150**	-	**3,930,030**

All the investments are quoted except foreign exchange contracts and derivative financial instruments. There are no transfers between levels during the period hence no Level 3 reconciliation is presented.

41.8 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 2015, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial assets and liabilities:

41. FINANCIAL RISK MANAGEMENT (continued)

41.8 FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES (continued)

	Fair value		Carrying value	
	31 December 2015	31 December 2014	31 December 2015	31 December 2014
	AED'000	AED'000	AED'000	AED'000
Assets				
Loans and advances	28,005,631	25,437,913	27,798,096	25,266,475
Investment securities	4,193,318	3,916,880	4,114,981	3,785,289
Cash and balances with the UAE central Bank	4,911,482	4,217,469	4,908,196	4,217,469
Due from other Banks	1,907,656	305,947	1,906,813	305,947
Total financial assets	**39,018,087**	**33,878,209**	**38,728,086**	**33,575,180**
Liabilities				
Due to banks	1,057,492	761,674	1,056,141	761,807
Due to customer	27,883,754	24,673,563	27,820,105	24,651,408
Debt securities issued	2,864,727	1,667,629	2,864,727	1,667,629
Total financial liabilities	**31,805,373**	**27,102,866**	**31,740,373**	**27,080,844**

41.9 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.

41. FINANCIAL RISK MANAGEMENT (continued)

41.9 CAPITAL MANAGEMENT (continued)

41.9.1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY AS PER BASEL II REQUIREMENT AS AT 31 DECEMBER 2015

The Bank is required to report capital resources and risk-weighted assets under the Basel II Pillar 1 framework, as shown in the following table. The Bank has adopted standardised approach for calculation of credit risk and market risk capital charge. On operational risk, alternative standardized approach is followed for capital charge calculation under Pillar1.

	2015	2014
	AED'000	AED'000
Tier 1 capital		
Ordinary share capital	1,676,245	1,676,245
Share premium	110,350	110,350
Statutory and other reserves	3,560,228	3,275,608
Retained earnings (excludes 2015 profit)	945,564	614,316
Total	**6,292,387**	**5,676,519**
Deductions		
Investment in RAKNIC	(317,244)	-
Tier 1 Capital	**5,975,143**	**5,676,519**
Tier 2 capital	**-**	**-**
Total regulatory capital	**5,975,143**	**5,676,519**
Risk weighted assets		
Credit risk	25,084,932	22,206,238
Market risk	8,547	29,590
Operational risk	1,735,802	1,498,386
Total risk weighted assets	**26,829,281**	**23,734,214**
Capital adequacy ratio on regulatory capital	22.27%	23.92%
Capital adequacy ratio on Tier 1 capital	22.27%	23.92%

41. FINANCIAL RISK MANAGEMENT (continued)

41.9 CAPITAL MANAGEMENT (continued)

41.9.1 CAPITAL STRUCTURE AND CAPITAL ADEQUACY AS PER BASEL II REQUIREMENT AS AT 31 DECEMBER 2015 (continued)

Risk assets ratios computed considering the current year profit and without deducting proposed cash dividend for the year 2015 will be as follows :

	2015	2014
	AED'000	AED'000
Total Tier 1 capital	7,692,774	7,131,121
Total Tier 2 capital	-	-
Total capital base	**7,692,774**	**7,131,121**
Investment in RAKNIC	(317,244)	-
Total regulatory capital	**7,375,530**	**7,131,121**
Risk asset ratio on total capital base (%)	**27.49%**	**30.05%**
Risk asset ratio on Tier 1 capital base (%)	**27.49%**	**30.05%**

The below ratios are computed considering the current year profit net off proposed cash dividend.

	2015	2014
	AED'000	AED'000
Total Tier 1 capital	6,854,651	6,292,998
Total Tier 2 capital	-	-
Total capital base	**6,854,651**	**6,292,998**
Investment in RAKNIC	(317,244)	-
Total regulatory capital	**6,537,407**	**6,292,998**
Risk asset ratio on total capital base (%)	**24.37%**	**26.51%**
Risk asset ratio on Tier 1 capital base (%)	**24.37%**	**26.51%**

42. 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

42. INSURANCE RISK (continued)

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

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

The Company 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.

42. INSURANCE RISK (continued)

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.

43. 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 37 million (2014: AED 27 million).

43. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES (Continued)

(B) HELD-TO-MATURITY INVESTMENTS

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

(C) IMPAIRMENT OF AVAILABLE FOR SALE INVESTMENT

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.

(D) 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.

(E) 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.

44. SOCIAL CONTRIBUTIONS

The social contributions made (including donations and charity) during the year to various beneficiaries amounted to AED 1.63 million (AED 1.62 million).

The disclosures given below pertain to National Bank of Ras AL Khaimah P.S.C. and its five subsidiaries (group) and are in accordance with Basel 2, 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 27/2009 dated 17th November 2009 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 five subsidiaries. These subsidiaries are Ras Al Khaimah National insurance company PSC (RAKNIC), RAK Islamic Finance Company Pvt. J.S.C, BOSS FZCO, RAK Technologies FZCO and RAK Funding Cayman Limited. (together referred as the “Group”).The consolidated financial statements 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 PSC (RAKNIC)	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.

2. CAPITAL STRUCTURE

QUANTITATIVE DISCLOSURE

The Group's capital structure is as indicated below.

	AED'000
Tier 1 capital	
Share capital	1,676,245
Share premium account	110,350
Legal reserves	839,590
Voluntary reserves	336,717
General banking reserves	900,000
Credit risk reserves	1,150,000
Regulatory credit reserves	334,000
Fair value reserve	(79)
Retained earnings	945,564
Tier 1 capital excluding year 2015 profit	**6,292,387**
Deductions	
Investment in RAKNIC	(317,244)
Tier 1 Capital	**5,975,143**
Tier 2 Capital	-
Total eligible capital	**5,975,143**
Current year profit (Excluding RAKNIC)	1,400,387
Total eligible capital including year 2015 profit	**7,375,530**
Less: Proposed cash dividend for the year 2015	(838,123)
Total eligible capital after deducting proposed cash dividend	**6,537,407**

3. CAPITAL ADEQUACY

QUALITATIVE DISCLOSURE

National Bank of Ras Al Khaimah P.S.C (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 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, 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.

3. CAPITAL ADEQUACY (continued)

QUALITATIVE DISCLOSURE (continued)

The Asset and Liability Committee (ALCO), one of the key committee overseeing balance sheet risks is chaired by the Chief Executive Officer and comprises of divisional heads of Finance, Treasury, Risk, Operations, Wholesale Banking and retail Banking. It meets on a regular basis to monitor and manage market risk.

ALCO is responsible for formalizing the group's key financial indicators and ratios, set the thresholds to manage and monitor these risks. ALCO also guides the group's investment decisions and provides guidance in terms of interest rate and currency movements.

The Management Risk Committee (MRC) is chaired by the Chief Executive Officer and is responsible for all other forms of risks which are operational in nature. The committee reviews adequacy and effectiveness of internal control systems, operational risk management procedures and risk assessment methodologies (viz. key risk indicators (KRI), operational risk self-assessment (ORSA) and incident management).

The credit committee is responsible for controlling credit risk arising from the business under taken by retail banking, Wholesale banking, lending to banks and investments carried out by Treasury. The committee comprises of three directors, Chief executive officer, managing director of retail Credit and assets and director wholesale banking credit. The committee reviews and approves credit facilities which are beyond delegated authorities of mangers of the Group, reviews periodic credit MIS of all credit portfolios of the Group and monitor the level of delinquent and non-performing assets.

Board audit committee consists of three directors and director group internal audit. The committee is responsible for the appropriateness and integrity of the Financial statements and annual reports of the Bank and its subsidiaries. The committee oversees the Group's internal audit department and ensures effectiveness of the audit process.

Board risk committee consists of three directors, Chief Executive officer , divisional heads of risk, internal controls, audit, human resources, legal, retail credit and wholesale credit. Committee reviews Group's risk policies, regulatory risk capital and provides oversight over matters related to anti money laundering and internal controls.

As per the supervisory review process (SRP) under Basel 2, 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. It takes into account any feed-back it gets from its regulator.

The various risks that attract risk assets under Basel 2 are described below:

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 Group.

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 and Wholesale banking assets.

3. CAPITAL ADEQUACY (continued)

QUALITATIVE DISCLOSURE (continued)

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 Group does not enter in to derivative trades for speculative purposes. The only exposures to derivatives are in respect of forward exchange contracts which are entered, to meet customer needs or interest rate swaps for hedging purposes.

OPERATIONAL RISK

Operational risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events, whether intentional, unintentional or natural. It is an inherent risk faced by all businesses and covers a large number of operational risk events including business interruption and systems failures, internal and external fraud, employment practices and workplace safety, customer and business practices, transaction execution and process management, and damage to physical assets. Whilst operational risk cannot be eliminated in its entirety, the group endeavours to minimise it by ensuring that a strong control infrastructure is in place throughout the organisation. The management of operational risk commence with the adoption of a formal governance structure under the Operational Risk Management Committee to provide strategic direction oversight and monitoring of the Operational Risk Framework. The Framework incorporates standards for risk that are based on best practice and codify the core governing principles for operational risk management. It ensures that identification, evaluation, control, measurement, monitoring and reporting of operational risks are consistent across the group.

3. CAPITAL ADEQUACY (continued)

QUALITATIVE DISCLOSURE (continued)

CAPITAL ADEQUACY RATIO

	AED'000
Risk Weighted Assets	
Credit risk	25,084,932
Market risk	8,547
Operational risk	1,735,802
Total Risk Weighted Assets	**26,829,281**

Total regulatory capital (After deduction of RAKNIC investments of AED 317,244 thousands and excluding current year profit and proposed dividend)	5,975,143
Capital adequacy ratio(excluding profit and proposed dividend)	22.27%
Total regulatory capital(After deduction of RAKNIC investments of AED 317,244 thousands and Including current year profit and post proposed dividend)	6,537,407
Capital adequacy ratio(Including profit and post proposed dividend)	24.37%
Total regulatory capital(After deduction of RAKNIC investments of AED 317,244 thousands, Including current year profit and without deducting proposed dividend)	7,375,530
Capital adequacy ratio(Including profit and without deducting proposed dividend)	27.49%

4. CREDIT RISK - QUANTITATIVE DISCLOSURES

NET CREDIT EXPOSURE BY CURRENCY

At 31 December 2015 the Group had the following gross exposures

On balance sheet items

	AED	USD	Others	Total
At 31 December 2015	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Assets				
Due from other banks	748,695	1,032,713	125,405	1,906,813
Loans and advances (net)	26,109,784	1,676,719	11,593	27,798,096
Investment securities	49,473	4,065,508	-	4,114,981
Total assets	**26,907,952**	**6,774,940**	**136,998**	**33,819,890**

4. CREDIT RISK - QUANTITATIVE DISCLOSURES (continued)

NET CREDIT EXPOSURE BY CURRENCY (continued)

Off-balance sheet items

	AED	USD	Others	Total
At 31 December 2015	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Credit commitments	37,646	-	-	37,646
Guarantees, acceptances, letter of credit and other exposures	541,811	242,307	50,468	834,586
Total	**579,457**	**242,307**	**50,468**	**872,232**
Total of on and off balance sheet	**27,487,409**	**7,017,247**	**187,466**	**34,692,122**

A) NET CREDIT EXPOSURE BY GEOGRAPHY:

The Group's activities are primarily within UAE. Exposure outside UAE are insignificant and are mainly in the form of loans and advances, investments and Inter-bank placements amounting to AED 3.4 billion, roughly 10.1 % of the total credit exposure on these lines as at 31st December 2015.

B) GROSS CREDIT EXPOSURE BY INDUSTRY:

As at 31.12.2015 — **On balance sheet items**

	Loans and advances	Investment securities	Due from banks	Total funded	Off balance sheet Items	Total
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
At 31 December 2015						
Agriculture, fishing & related activities	96	-	-	96	156	252
Crude oil , gas, mining & quarrying	4,827	-	-	4,827	117,530	122,357
Manufacturing	726,987	218,264	-	945,251	28,423	973,674
Electricity & water	5,220	650,730	-	655,950	1,595	657,545
Construction	684,085	190,959	-	875,044	78,775	953,819
Trading	6,374,785	-	-	6,374,785	186,546	6,561,331
Transport, storage & communication	1,341,607	353,592	-	1,695,199	25,068	1,720,267
Financial Institutions	1,027,995	1,675,996	1,906,813	4,610,804	112,213	4,723,017
Services	3,356,314	248,531	-	3,604,845	246,545	3,851,390
Government	-	776,909	-	776,909	31,785	808,694
Retail and consumer banking	15,020,780	-	-	15,020,780	43,596	15,064,376
Total exposures	**28,542,696**	**4,114,981**	**1,906,813**	**34,564,490**	**872,232**	**35,436,722**

4. CREDIT RISK - QUANTITATIVE DISCLOSURES (continued)

NET CREDIT EXPOSURE BY CURRENCY (continued)

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 2015						
Assets						
Due from other banks	1,626,443	259,107	21,263	-	-	1,906,813
Loans and advances	5,648,285	5,324,457	7,691,173	2,733,383	6,400,798	27,798,096
Investment securities	126,808	237,407	619,325	883,907	2,247,534	4,114,981
Total	**7,401,536**	**5,820,971**	**8,331,761**	**3,617,290**	**8,648,332**	**33,819,890**

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 2015				
Credit commitments	37,646	-	-	37,646
Guarantees, acceptances and other financial facilities	533,496	126,750	174,340	834,586
Total	**571,142**	**126,750**	**174,340**	**872,232**

5. IMPAIRMENT AND PROVISIONING - QUALITATIVE DISCLOSURE

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.

5. IMPAIRMENT AND PROVISIONING - QUALITATIVE DISCLOSURE (continued)

A) PAST DUE AND IMPAIRED LOANS WITH PROVISIONING (continued)

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

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

5. IMPAIRMENT AND PROVISIONING - QUALITATIVE DISCLOSURE (continued)

IMPAIRED LOAN BY INDUSTRY SEGMENT

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

	Less than 90 days	Overdue-above 90 Days	Total	Specific Provision
	AED'000	AED'000	AED'000	AED'000
At 31 December 2015				
Manufacturing	-	12,448	12,448	12,655
Construction	1,212	20,718	21,930	20,674
Trading	29,314	276,353	305,667	252,653
Transport, storage & communication	3,543	45,554	49,097	45,425
Services	5,769	68,587	74,356	71,458
Retail and consumer banking	28,323	422,547	450,870	255,038
Total impaired loans	**68,161**	**846,207**	**914,368**	**657,903**

PAST DUE AND IMPAIRED LOANS WITH PROVISIONING

The total impairment provision for loans and advances is AED 744.6 million (2014: AED 539.2 million) of which AED 657.9 million (2014: AED 436.2 million) represents provision in respect of the individually impaired loans and advances and the remaining AED 86.7 million (2014: AED 103.0 million) represents the portfolio provision to reflect the risk inherent in the Group's loan portfolio.

A) IMPAIRED LOAN BY GEOGRAPHICAL DISTRIBUTION

As at 31st December 2015 the total impaired loans outstanding of nonresident customer is AED 7,837 thousands. Out of which AED 7,835 thousands are mortgage loans backed by collateral.

B) RECONCILIATION OF CHANGES IN PROVISION OF IMPAIRED LOANS

Impairment Provisions

	Specific	General Portfolio
	AED'000	AED'000
Opening Balance as at 01 Jan 2015	436,227	103,000
Net impairment charge for the year	1,124,764	(16,303)
Written off during the year	(903,088)	-
Balance as at 31 Dec 2015	**657,903**	**86,697**

6. CREDIT RISK WEIGHTED ASSETS – QUANTITATIVE DISCLOSURES

			Credit Risk Mitigation (CRM)		On and off balance sheet	
	On and off balance sheet Net 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
At 31 December 2015						
Claims on soverigns	4,882,458	4,882,458	-	4,882,458	4,882,458	-
Claims on PSE's	553,459	553,459	-	553,459	553,459	17,496
Claims on banks	4,363,262	4,363,262	-	4,363,262	4,363,262	2,152,200
Claims on corporates	6,203,479	6,203,479	394,709	5,808,770	4,256,672	3,608,147
Claims included in the regulatory retail portfolio	27,428,258	27,384,804	56,655	27,328,149	20,561,756	15,900,931
Claims secured by residential property	3,481,663	3,481,663	-	3,481,663	3,454,760	1,424,622
Claims secured by commercial real estate	22,112	22,112	-	22,112	22,112	22,112
Past due loans	1,091,918	558,731	-	558,731	558,731	652,915
Other assets	2,428,573	2,428,573	-	2,428,573	2,428,573	1,306,510
Total claims	**50,455,182**	**49,878,541**	**451,364**	**49,427,177**	**41,081,783**	**25,084,933**
Of which :						
Rated exposure		5,459,458				
Unrated exposure		44,419,083				

The rated exposure pertains to inter bank placements and investments. 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 and Standard & Poor's.

7. CREDIT RISK MITIGATION

A) QUALITATIVE DISCLOSURE

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

The 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 and auto loans, which together represent a significant portion of loans and advances, are backed by collateral.

7. CREDIT RISK MITIGATION (continued)

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 ongoing basis.

B) QUANTITATIVE DISCLOSURE:

	Exposure	Risk Weighted Assets
	AED'000	AED'000
Gross exposure prior to Credit Risk Mitigation	49,878,542	25,532,656
Less: Exposures covered by eligible financial collateral	(451,364)	(447,724)
Net Exposures after Credit Risk Mitigation	**49,427,178**	**25,084,932**

The eligible financial collaterals above include cash and deposits.

8. MARKET RISK

A) CAPITAL REQUIREMENT FOR MARKET RISK UNDER STANDARDIZED APPROACH

	Risk weighted asset	Capital charge
	AED'000	AED'000
Foreign exchange risk	8,547	1,026

Capital charge for year ended 31 December 2015 has been calculated at 12%

EQUITY RISK

As at 31 December 2015, the Group did not have any equity securities in its trading book. All equity investments are under available for sale category.

INTEREST RATE RISK

Interest rate risk arises due to mismatches of fixed interest rate assets and floating rate interest rate liabilities. This is monitored through the use of detailed gap report and stress testing. Refer to Note number 41.3.2 of the audited financial statement for details of Interest rate risk.

9. OPERATIONAL RISK

The Group follows Alternative Standardized Approach (ASA) for calculation of operational risk.

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

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

Calculation of Operational risk:

	Three year Averge	M Factor	Beta Factor	Capital Charge	Capital charge (UAE) Basel Capital charge *1.5	RWA =Capital Charge x 8.333*
	AED'000			**AED'000**	**AED'000**	**AED'000**
Trading and Sales	159,610	-	18%	28,730	43,095	359,125
Commercial Banking	1,400,042	0.035	15%	7,350	11,025	91,875
Retail Banking	24,472,410	0.035	12%	102,784	154,176	1,284,802
Operational Risk					**208,296**	**1,735,802**

* Total Risk weighted assets are determined by multiplying the Capital Charge for operational risk by 8.333 (i.e. the reciprocal of the minimum capital ratio of 12%) and adding the resulting figures to sum the risk weighted assets.