

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

**Review report and interim financial information
from 1 January 2016 to 30 September 2016**

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

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

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

We have reviewed the accompanying condensed consolidated statement of financial position of **The National Bank of Ras Al-Khaimah (P.S.C.), Ras Al-Khaimah, United Arab Emirates** (the "Bank") and its **Subsidiaries** (together referred to as the "Group") as at 30 September 2016 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the nine month period then ended. Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

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

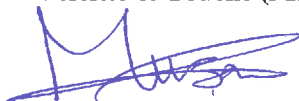
Conclusion

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

Other matters

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 2 February 2016. Further, the interim financial information of the Group for the period from 1 January 2015 to 30 September 2015 were reviewed by another auditor who expressed an unmodified conclusion on those interim financial information on 25 October 2015.

Deloitte & Touche (M.E.)



**Musa Ramahi
Registration No.: 872
27 October 2016**

**Condensed consolidated statement of financial position
as at 30 September 2016**

	Notes	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
ASSETS			
Cash and balances with UAE Central Bank	4	4,863,625	4,908,196
Due from other banks	5	1,754,424	1,906,813
Loans and advances, net	6	28,002,994	27,798,096
Investment securities	7	4,309,631	4,115,072
Insurance contract assets and receivables		395,781	325,493
Other assets	8	447,768	424,585
Goodwill and other intangible assets		174,942	177,349
Property and equipment		879,155	897,450
Total assets		40,828,320	40,553,054
LIABILITIES AND EQUITY			
Liabilities			
Due to other banks	9	946,797	1,056,141
Deposits from customers	10	28,365,052	27,820,105
Debt securities in issue	11	2,768,579	2,864,727
Insurance contract liabilities and payables		469,498	389,783
Other liabilities	12	708,082	704,850
Total liabilities		33,258,008	32,835,606
Equity			
Share capital	13	1,676,245	1,676,245
Share premium		110,350	110,350
Retained earnings		1,814,956	2,102,951
Other reserves		3,927,858	3,789,706
Equity attributable to owners of the Parent		7,529,409	7,679,252
Non-controlling interests		40,903	38,196
Total equity		7,570,312	7,717,448
Total liabilities and equity		40,828,320	40,553,054

.....
Peter William England
Chief Executive Officer

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

**Condensed consolidated income statement (un-audited)
for the period from 1 January 2016 to 30 September 2016**

	Notes	Three month period ended 30 September		Nine month period ended 30 September	
		2016 (un-audited) AED'000	2015 (un-audited) AED'000	2016 (un-audited) AED'000	2015 (un-audited) AED'000
Interest income	16	678,041	749,917	2,081,552	2,168,900
Interest expense	16	(73,799)	(56,173)	(205,132)	(162,645)
Net interest income		604,242	693,744	1,876,420	2,006,255
Income from Islamic financing	17	91,687	108,741	290,368	296,269
Distribution to depositors	17	(9,675)	(9,140)	(28,837)	(25,059)
Net income from Islamic financing		82,012	99,601	261,531	271,210
Net interest income and net income from Islamic financing		686,254	793,345	2,137,951	2,277,465
Net fees and commission income	18	158,005	174,437	496,315	513,939
Foreign exchange & derivative income		27,820	24,031	77,913	71,716
Gross insurance underwriting profit		14,740	21,855	33,487	24,888
Investment income / (loss)	19	35,167	(407)	114,061	170
Other operating income		27,155	21,706	57,065	52,627
Non-interest income		262,887	241,622	778,841	663,340
Operating income		949,141	1,034,967	2,916,792	2,940,805
Operating expenses	20	(328,589)	(386,837)	(1,015,370)	(1,149,540)
Operating profit before provision for impairment		620,552	648,130	1,901,422	1,791,265
Provision for impairment of loans and advances, net	6(d),(e)	(511,776)	(274,929)	(1,347,175)	(701,889)
Profit for the period		108,776	373,201	554,247	1,089,376
<i>Attributed to:</i>					
Owners of the Parent		107,904	370,842	552,578	1,086,964
Non-controlling interests		872	2,359	1,669	2,412
Profit for the period		108,776	373,201	554,247	1,089,376
<i>Earnings per share:</i>					
Basic and diluted in AED	21	0.06	0.22	0.33	0.65

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

**Condensed consolidated statement of comprehensive income (un-audited)
for the period from 1 January 2016 to 30 September 2016**

	Three month period ended 30 September		Nine month period ended 30 September	
	2016 (un-audited) AED'000	2015 (un-audited) AED'000	2016 (un-audited) AED'000	2015 (un-audited) AED'000
Profit for the period	108,776	373,201	554,247	1,089,376
<i>Other comprehensive income/(loss)</i>				
<i>Items that will be reclassified subsequently to profit or loss</i>				
Net changes in fair value of available-for- sale investment securities	(4,371)	(3,882)	139,641	(10,224)
Other comprehensive income/(loss) for the period	(4,371)	(3,882)	139,641	(10,224)
Total comprehensive income for the period	104,405	369,319	693,888	1,079,152
<i>Attributed to:</i>				
Owners of the Parent	103,514	367,277	689,748	1,077,849
Non-controlling interests	891	2,042	4,140	1,303
Total comprehensive income for the period	104,405	369,319	693,888	1,079,152

Condensed consolidated statement of changes in equity
for the period from 1 January 2016 to 30 September 2016

	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Equity attributable to owners of the Parent AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 31 December 2014 (audited)	1,676,245	110,350	1,784,065	3,560,461	7,131,121	-	7,131,121
Profit for the period	-	-	1,086,964	-	1,086,964	2,412	1,089,376
Other comprehensive loss	-	-	-	(9,115)	(9,115)	(1,109)	(10,224)
Total comprehensive income for the period	-	-	1,086,964	(9,115)	1,077,849	1,303	1,079,152
Treasury stock elimination	-	-	-	(2,398)	(2,398)	-	(2,398)
Non-controlling interest on RAKNIC acquisition	-	-	-	-	-	36,178	36,178
Dividend paid	-	-	(838,123)	-	(838,123)	-	(838,123)
Zakat	-	-	(378)	-	(378)	-	(378)
Balance at 30 September 2015 (un-audited)	1,676,245	110,350	2,032,528	3,548,948	7,368,071	37,481	7,405,552
Balance at 31 December 2015 (audited)	1,676,245	110,350	2,102,951	3,789,706	7,679,252	38,196	7,717,448
Profit for the period	-	-	552,578	-	552,578	1,669	554,247
Other comprehensive income	-	-	-	137,170	137,170	2,471	139,641
Total comprehensive income for the period	-	-	552,578	137,170	689,748	4,140	693,888
Dividend paid	-	-	(838,000)	-	(838,000)	(1,142)	(839,142)
Zakat	-	-	(482)	-	(482)	-	(482)
Transfer to legal reserve	-	-	(491)	491	-	-	-
Transfer to voluntary reserve	-	-	(491)	491	-	-	-
Other	-	-	(1,109)	-	(1,109)	(291)	(1,400)
At 30 September 2016 (un-audited)	1,676,245	110,350	1,814,956	3,927,858	7,529,409	40,903	7,570,312

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

**Condensed consolidated statement of cash flows (un-audited)
for the period from 1 January 2016 to 30 September 2016**

	Nine month period ended 30 September	
	2016 (un-audited) AED'000	2015 (un-audited) AED'000
<i>Cash flows from operating activities</i>		
Profit for the period	554,247	1,089,376
Adjustments:		
Provision for impairment of loans and advances, net	1,347,175	701,889
Depreciation of property and equipment	81,990	91,343
Amortisation of intangible assets	2,407	1,070
Gain on disposal of property and equipment	(968)	(459)
Amortisation of premium/discount relating to investments securities	10,899	12,390
Gain on sale of held-for-trading investment securities	(2,865)	-
Gain on sale of available-for-sale investment securities	(96,939)	-
(Gain)/loss on held for trading investment securities	(420)	462
Changes in operating assets and liabilities	1,895,526	1,896,071
Increase in deposits with the UAE Central Bank	(237,430)	(292,161)
(Increase)/decrease in due from other banks with original maturities of three months or over	(509,441)	34,364
Increase in loans and advances, net	(1,552,073)	(3,555,786)
(Increase)/decrease in insurance contract assets and receivables	(70,288)	4,488
Decrease/(increase) in other assets	4,551	(123,527)
(Decrease)/increase in due to other banks	(109,344)	62,826
Increase in deposits from customers	544,947	2,058,138
Increase/(decrease) in insurance contract liabilities and payables	79,715	(46,593)
Increase in other liabilities	3,232	131,114
Net cash generated from operating activities	49,395	168,934
<i>Cash flows from investing activities</i>		
Purchase of investment securities	(2,536,927)	(441,429)
Proceeds from maturity/disposal of investment securities	2,571,334	89,726
Purchase of property and equipment	(64,432)	(54,316)
Proceeds from disposal of property and equipment	1,705	718
Investment in RAKNIC, net	-	(203,956)
Net cash used in investing activities	(28,320)	(609,257)
<i>Cash flows from financing activities</i>		
Dividends paid	(839,142)	(838,123)
Zakat paid	(482)	(378)
Directors' remuneration	(1,400)	-
Purchase of/issue of debt security	(123,882)	1,233,682
Net cash (used in)/generated from financing activities	(964,906)	395,181
Net decrease in cash and cash equivalents	(943,831)	(45,142)
Cash and cash equivalents, beginning of the period	2,439,849	1,002,191
Cash and cash equivalents, end of the period (Note 23)	1,496,018	957,049

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016**

1. Incorporation and principal activities

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

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

At 30 September 2016, The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and five subsidiaries (together referred to as the “Group”). The condensed consolidated interim financial information for the nine month period ended 30 September 2016 comprises the Bank and following direct subsidiaries.

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

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

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

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

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

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

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

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

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

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

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

<u><i>New and revised IFRS</i></u>	<u><i>Effective for annual periods beginning on or after</i></u>
• Amendments to IAS 12 <i>Income Taxes</i> relating to recognition of Deferred Tax Assets for Unrealised Losses.	1 January 2017
• Amendments to IAS 7 <i>Statement of Cash Flows</i> to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017
• IFRS 9 <i>Financial Instruments</i> (revised versions in 2009, 2010, 2013 and 2014)	1 January 2018
<p>IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013 to include the new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.</p>	

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

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

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

New and revised IFRS

***Effective for
annual periods
beginning on or after***

A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:

- **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.
- **Impairment:** The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.
- **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.
- **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.
- Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9. When IFRS 9 is first applied
- IFRS 7 Financial Instruments: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9. When IFRS 9 is first applied
- IFRS 15 *Revenue from Contracts with Customers*: IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers. 1 January 2018
- IFRS 16 *Leases* provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. 1 January 2019
- Amendments to IFRS 10 *Consolidated Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures* (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture. Effective date deferred indefinitely

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
<ul style="list-style-type: none"> • IFRS 4 Insurance contracts: the amendments are intended to address concerns about different effective dates of IFRS 9 and the forthcoming new insurance contracts standard. 	<p>When IFRS 9 is first applied</p>

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s condensed consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.

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

3. Significant accounting policies

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

(a) Basis of preparation

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

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

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

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

These condensed consolidated financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the Group’s audited annual consolidated financial statements as at and for the year ended 31 December 2015. In addition, results for the nine month period ended 30 September 2016 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2016.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

3. Significant accounting policies (continued)

(b) Consolidation

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

i) Subsidiaries

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

ii) Transactions eliminated on consolidation

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

iii) Acquisition accounting

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

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

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

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

(c) Loans and advances and provision for impairment

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

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

3. Significant accounting policies (continued)

(c) Loans and advances and provision for impairment (continued)

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
 - (i) adverse changes in the payment status of borrowers in the portfolio; and
 - (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the condensed 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 condensed 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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

3. Significant accounting policies (continued)

(c) Loans and advances and provision for impairment (continued)

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

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

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

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

(d) Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Salam, Mudaraba, and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are as per Note 3(c).

i) Murabaha financing

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

ii) Salam

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Group (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

iii) Mudaraba

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

3. Significant accounting policies (continued)

(d) Islamic financing (continued)

iv) Wakala

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

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

v) Ijara

Ijara financing is a finance lease agreement whereby the Group (lessor) leases an asset based on the customer's (lessee) request and promise to lease the assets for a specific period in lieu of rental instalments. Ijara ends in transferring the ownership of the asset to the lessee at the end of the lease inclusive of the risks and rewards incident to an ownership of the leased assets. Ijara assets are stated at amounts equal to the net investment outstanding in the lease including the income earned thereon less impairment provisions.

(e) Investment securities

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

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

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

Available-for-sale: Available-for-sale investments are those non-derivative financial assets that are designated as available-for-sale or are not classified as (a) loans and advances, (b) held-to-maturity investments.

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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

3. Significant accounting policies (continued)

(e) Investment securities (continued)

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 condensed 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 condensed consolidated statement of comprehensive income is recognised in the income statement.

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

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

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

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

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

(f) Cash and cash equivalents

In the condensed consolidated statement of cash flows, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of less than three months excluding the statutory deposit required to be maintained with the UAE Central Bank.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

4. Cash and balances with UAE Central Bank

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Cash in hand	697,833	802,647
Balances with the UAE Central Bank	100,648	277,835
Statutory deposit with the UAE Central Bank	2,965,144	2,827,714
Certificates of deposit with the UAE Central Bank	1,100,000	1,000,000
	<u>4,863,625</u>	<u>4,908,196</u>

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

5. Due from other banks

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Placements with other banks	557,603	999,523
Demand deposits	124,961	495,858
Banker's acceptances	735,842	408,567
Other	336,018	2,865
	<u>1,754,424</u>	<u>1,906,813</u>

The below represents deposits and balances due from:

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Banks in UAE	709,663	1,042,530
Banks outside UAE	1,044,761	864,283
	<u>1,754,424</u>	<u>1,906,813</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

6. Loans and advances, net

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>(a) Loans and advances</i>		
Retail banking loans	17,773,034	18,131,609
Wholesale banking loans	4,106,399	2,429,414
Business banking loans	7,126,992	7,981,673
	<hr/>	<hr/>
Total loans and advances [Note 6(b)]	29,006,425	28,542,696
Provision for impairment [Note 6(c)]	(1,003,431)	(744,600)
	<hr/>	<hr/>
Net loans and advances	28,002,994	27,798,096
	<hr/> <hr/>	<hr/> <hr/>
<i>(b) Analysis of loans and advances</i>		
Personal loans	5,967,064	6,361,103
Mortgage loans	4,274,624	4,098,837
Credit cards	3,519,330	3,379,655
Auto loans	2,784,923	3,158,750
Business banking RAK finance loans	5,219,399	6,221,087
Business banking other loans	1,907,593	1,760,586
Wholesale banking loans	4,106,399	2,429,414
Other retail loans	1,227,093	1,133,264
	<hr/>	<hr/>
Total loans and advances	29,006,425	28,542,696
	<hr/> <hr/>	<hr/> <hr/>
<i>(c) Provision for impairment</i>		
Balance at the beginning of the period/year	744,600	539,227
Impairment allowance for the period/year	1,394,193	1,108,461
Written-off during the period/year	(1,135,362)	(903,088)
	<hr/>	<hr/>
Balance at the end of the period/year	1,003,431	744,600
	<hr/> <hr/>	<hr/> <hr/>

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

6. Loans and advances, net (continued)

	30 September 2016 (un-audited) AED'000	30 September 2015 (un-audited) AED'000
<i>(d) Provision for impairments on loans and advances net of recovery - for nine month period ended</i>		
Impairment allowance for the period	1,394,193	738,208
Net recovery during the period	(47,018)	(36,319)
Net impairment allowance the period	1,347,175	701,889
<i>(e) Provision for impairments on loans and advances net of recovery - for three month period ended</i>		
Impairment allowance for the period	527,204	287,026
Net recovery during the period	(15,428)	(12,097)
Net impairment allowance the period	511,776	274,929

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

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>(f) Impairment loans and advances provision coverage</i>		
Aggregate impaired loans	1,187,575	914,368
Provision held	1,003,431	744,600
Coverage ratio	84.49%	81.43%

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

6. Loans and advances, net (continued)

(g) Islamic financing assets

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

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>i) Islamic financing assets</i>		
Islamic retail financing assets	3,314,870	3,433,666
Islamic business banking assets	836,758	1,025,971
Islamic wholesale banking assets	106,499	73,252
	<hr/>	<hr/>
Total Islamic financing assets	4,258,127	4,532,889
Provision for impairment	(149,061)	(120,849)
	<hr/>	<hr/>
	4,109,066	4,412,040
	<hr/> <hr/>	<hr/> <hr/>
<i>ii) Analysis of Islamic financing assets</i>		
Islamic Salam Personal finance	1,571,675	1,733,838
Islamic Auto Murabaha	993,056	1,156,072
Islamic Business banking Finance	836,758	1,025,971
Islamic Ijara Property Finance	600,092	381,486
Islamic Credit Cards	149,275	161,531
Islamic wholesale banking	106,499	73,252
Islamic finance – other	772	739
	<hr/>	<hr/>
	4,258,127	4,532,889
	<hr/> <hr/>	<hr/> <hr/>
7. Investment securities		
	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Securities available-for-sale</i>		
Quoted equity securities	34,968	41,784
Unquoted equity securities	107	107
Quoted debt securities*	4,032,358	74,746
Unquoted debt securities	223,868	-
	<hr/>	<hr/>
	4,291,301	116,637
	<hr/>	<hr/>
<i>Securities held-for-trading</i>		
Quoted debt securities fair valued through profit and loss	14,309	-
Quoted mutual funds fair valued through profit and loss	4,021	3,966
	<hr/>	<hr/>
	18,330	3,966
	<hr/>	<hr/>

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

7. Investment securities (continued)

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Securities held-to-maturity</i>		
Unquoted debt securities	-	220,380
Quoted debt securities	-	3,774,089
	<hr/>	<hr/>
	-	3,994,469
	<hr/>	<hr/>
Total investment securities	4,309,631	4,115,072

*As at 30 September 2016, quoted debt securities with book value of AED 379 million (31 December 2015: AED 658 million) have been given as collateral against repo borrowings of AED 308 million (31 December 2015: AED 591 million) (Note 9).

During the period, the Group reclassified the investments carried at held-to-maturity portfolio with market value of AED 4,130 million to the available-for-sale portfolio. As a result, the Group cannot classify any investment as held-to-maturity up until the year 2018.

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

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Federal and local Government - UAE	476,157	702,109
Government related entity - UAE	896,842	1,034,464
Government – GCC	360,024	74,800
Government related entity - GCC	119,945	87,478
Government – other	103,873	-
Banks and financial institutions - UAE	668,190	590,819
Banks and financial institutions - GCC	154,664	22,016
Banks and financial institutions - other	1,110,565	1,044,733
Public limited companies – UAE	220,337	185,090
Public limited companies – GCC	11,299	-
Public limited companies - other	148,639	327,706
	<hr/>	<hr/>
Total debt securities	4,270,535	4,069,215
Quoted equity securities	34,968	41,784
Quoted mutual funds	4,021	3,966
Unquoted equity securities	107	107
	<hr/>	<hr/>
Total investment securities	4,309,631	4,115,072

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

8. Other assets

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Interest receivable	205,883	214,791
Profit receivable on Islamic financing assets	33,819	43,055
Prepayments and deposits	73,325	79,570
Interest rate swaps and other derivatives	65,992	23,496
Others*	68,749	63,673
	<u>447,768</u>	<u>424,585</u>

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

9. Due to other banks

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Term borrowings	550,067	462,942
Repurchase agreements (Note 7)	308,366	591,403
Demand deposits	88,364	1,796
	<u>946,797</u>	<u>1,056,141</u>

10. Deposits from customers

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Time deposits	7,734,437	7,723,523
Current accounts	15,477,763	15,057,746
Saving deposits	3,780,472	3,740,321
Call deposits	1,372,380	1,298,515
	<u>28,365,052</u>	<u>27,820,105</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

10. Deposits from customers (continued)

Time deposits include AED 451 million (31 December 2015: AED 484 million) held by the Group as cash collateral for loans and advances granted to customers.

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

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Wakala deposits	1,152,421	1,728,368
Mudaraba term investment deposits	42,646	36,928
Qard-E-Hassan - current accounts	491,915	521,847
Mudaraba - current accounts	1,111,394	1,030,169
Mudaraba - saving accounts	137,455	142,794
Mudaraba - call deposits	31,305	30,633
	<u><u>2,967,136</u></u>	<u><u>3,490,739</u></u>

11. Debt securities in issue

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
USD 500 million medium term note issued at discount in June 2014	1,828,956	1,826,768
USD 300 million medium term note issued at premium in March 2015	1,108,189	1,110,252
Less: Own investment in debt securities issued	(210,662)	(84,053)
Less: Debt security issue costs	(8,263)	(10,865)
Fair value adjustment on hedged debt securities in issue	50,359	22,625
	<u><u>2,768,579</u></u>	<u><u>2,864,727</u></u>

The Group issued USD 500 million medium term note in June 2014 under its USD 1 billion medium term note programme through its subsidiary RAK Funding 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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

12. Other liabilities

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Interest payable	66,605	34,332
Profit distributable on Islamic deposits	23,259	22,535
Accrued expenses	113,294	195,275
Managers cheques issued	128,375	119,380
Provision for employees' end-of-service benefits	97,424	96,051
Derivatives	4,898	3
Others	274,227	237,274
	<u>708,082</u>	<u>704,850</u>

13. Share capital and dividend

At 30 September 2016, the authorised, issued and fully paid share capital of the Group comprised 1,676 million shares of AED 1 each (31 December 2015: 1,676 million shares of AED 1 each).

At the meeting held on 17 April 2016, the shareholders of the Bank approved a cash dividend of 50% amounting to AED 838 million of the issued and paid up capital in respect of the year ended 31 December 2015 (2014: 50% cash dividend amounting to AED 838 million). These dividends were paid out during the second quarter of 2016.

14. Contingencies and commitments

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
Irrevocable commitments to extend credit	45,618	37,646
Letters of guarantee	849,903	723,420
Letters of credit	82,781	76,847
Capital commitments and other	137,502	53,337
	<u>1,115,804</u>	<u>891,250</u>

Commitments to extend credit shown above represent unfunded amounts out of approved limits offered to customers, which are irrevocable by the Group. Commitments to extend credit amounting to AED 8,536 million (31 December 2015: AED 8,618 million) are revocable at the option of the Group and not included in the above table.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

15. Forward foreign exchange and other derivative contracts

Foreign exchange contracts comprise commitments to purchase foreign and domestic currencies on behalf of customers and in respect of the Bank's undelivered spot transactions.

Outstanding forward foreign exchange contracts, interest rate swaps and other derivative contracts at 30 September 2016 and 31 December 2015 are as follows:

	Fair Values		Notional AED'000
	Assets AED'000	Liability AED'000	
30 September 2016			
Foreign exchange contracts	3,191	3,242	1,308,605
Interest rate swaps	62,801	940	2,842,946
Other derivative contracts	-	716	440,760
	<u> </u>	<u> </u>	<u> </u>
31 December 2015			
Foreign exchange contracts	238	3	745,446
Interest rate swaps	23,258	-	2,850,248
Other derivative contracts	-	-	-
	<u> </u>	<u> </u>	<u> </u>

16. Interest income and expense

	Three month period ended 30 September		Nine month period ended 30 September	
	2016 (un-audited) AED'000	2015 (un-audited) AED'000	2016 (un-audited) AED'000	2015 (un-audited) AED'000
<i>Interest income</i>				
Personal loans	83,735	94,743	257,065	292,312
Mortgage loans	39,259	43,552	119,120	133,033
Credit cards	189,679	190,860	567,510	519,303
Auto loans	31,357	37,766	99,523	111,971
Business banking RAK finance loans	181,068	241,927	593,391	733,166
Wholesale banking loans	38,811	30,812	103,745	69,713
Business banking loans	53,056	43,594	158,979	121,626
Other retail loans	9,059	19,489	27,516	53,253
Investment securities	42,810	45,567	131,618	129,738
Deposits with the U.A.E. Central Bank	1,147	805	3,158	2,825
Other banks	8,060	802	19,927	1,960
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	678,041	749,917	2,081,552	2,168,900
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

16. Interest income and expense (continued)

	Three month period ended 30 September		Nine month period ended 30 September	
	2016	2015	2016	2015
	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000
<i>Interest expense</i>				
Due to customers	53,361	41,316	148,198	123,900
Debt securities issued	15,213	13,463	45,618	36,073
Borrowings from other banks	5,225	1,394	11,316	2,672
	<u>73,799</u>	<u>56,173</u>	<u>205,132</u>	<u>162,645</u>

17. Income from Islamic Financing and distribution to depositors

	Three month period ended 30 September		Nine month period ended 30 September	
	2016	2015	2016	2015
	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000
<i>Income from Islamic Financing</i>				
Islamic Salam personal finance	30,885	36,034	96,954	105,298
Islamic Auto Murabaha	17,716	20,586	56,638	57,376
Islamic business finance	35,546	48,385	117,641	125,493
Islamic asset based finance	1,726	943	4,665	1,429
Islamic Ijara property finance	5,814	2,793	14,470	6,673
	<u>91,687</u>	<u>108,741</u>	<u>290,368</u>	<u>296,269</u>
<i>Distribution to depository</i>				
Distribution of profit on Islamic term investment deposits	7,682	7,609	23,110	21,354
Distribution of profit on Islamic demand deposits	1,993	1,531	5,727	3,705
	<u>9,675</u>	<u>9,140</u>	<u>28,837</u>	<u>25,059</u>

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

18. Net fees and commission income

	Three month period ended 30 September		Nine month period ended 30 September	
	2016 (un-audited) AED'000	2015 (un-audited) AED'000	2016 (un-audited) AED'000	2015 (un-audited) AED'000
Personal loans	5,638	6,817	17,832	21,222
Mortgage loans	6,560	7,594	20,575	24,013
Credit cards	62,967	66,262	204,500	182,509
Auto loans	4,065	3,477	16,293	13,037
RAK Finance business loans	11,737	16,052	25,457	52,588
Wholesale banking loans	10,036	4,579	31,687	10,668
Business banking loans	22,444	18,683	61,606	51,801
Fiduciary income	11,254	18,018	38,907	64,271
Bancassurance	10,582	18,305	36,154	49,789
Other	12,722	14,650	43,304	44,041
	<u>158,005</u>	<u>174,437</u>	<u>496,315</u>	<u>513,939</u>

19. Investment income/(loss)

	Three month period ended 30 September		Nine month period ended 30 September	
	2016 (un-audited) AED'000	2015 (un-audited) AED'000	2016 (un-audited) AED'000	2015 (un-audited) AED'000
Fair value income	83	(407)	420	(462)
Dividend income	-	-	1,737	632
Net gain on disposal of investments	35,084	-	111,904	-
	<u>35,167</u>	<u>(407)</u>	<u>114,061</u>	<u>170</u>

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

20. Operating expenses

	Three month period ended 30 September		Nine month period ended 30 September	
	2016 (un-audited) AED'000	2015 (un-audited) AED'000	2016 (un-audited) AED'000	2015 (un-audited) AED'000
Staff costs	125,917	167,620	405,747	496,733
Occupancy costs	23,357	25,112	72,825	71,050
Marketing expenses	9,126	4,369	25,726	24,461
Depreciation and amortisation	27,561	31,310	84,397	92,413
Communication costs	8,636	9,583	28,072	27,141
Legal and consultancy fees	13,731	14,944	33,134	39,354
Computer expenses	16,044	20,225	57,309	61,079
Outsourced staff costs	85,897	93,207	253,482	278,950
Other	18,320	20,467	54,678	58,359
	<u>328,589</u>	<u>386,837</u>	<u>1,015,370</u>	<u>1,149,540</u>

21. Earnings per share

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

	Three month period ended 30 September (un-audited)		Nine month period ended 30 September (un-audited)	
Profit for the period (AED'000) (attributed to owners of the Parent)	<u>107,904</u>	<u>370,842</u>	<u>552,578</u>	<u>1,086,964</u>
Weighted average number of shares in issue (in thousands)	<u>1,676,245</u>	<u>1,676,245</u>	<u>1,676,245</u>	<u>1,676,245</u>
Basic earnings per share (AED)	<u>0.06</u>	<u>0.22</u>	<u>0.33</u>	<u>0.65</u>

22. Fiduciary activities

The Group holds assets in a fiduciary capacity for its customers without recourse. At 30 September 2016, such assets amounted to AED 1,693 million (31 December 2015: AED 1,786 million) and are excluded from the condensed consolidated financial statements of the Group.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

23. Cash and cash equivalents

	30 September 2016 (un-audited) AED'000	30 September 2015 (un-audited) AED'000
Cash in hand and current account with UAE Central Bank	798,481	712,843
Due from other banks	1,754,424	314,846
	2,552,905	1,027,689
Less: Due from other banks with original maturity of three months or more	(1,056,887)	(70,640)
	1,496,018	957,049

24. Operating segments

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

The Group has five main business segments:

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

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

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

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

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

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

24. Operating segments (continued)

The segment information provided to the management for the reportable segments for the period ended 30 September 2016 and 2015 is as follows:

	Retail Banking AED'000	Wholesale Banking AED'000	Business Banking AED'000	Treasury and other AED'000	Insurance business AED'000	Unallocated cost AED'000	Consolidation elimination AED'000	Total AED'000
<i>30 September 2016 (un-audited)</i>								
Net external interest income	999,119	90,757	714,601	68,941	3,002	-	-	1,876,420
Income from Islamic financing net of distribution to depositors	141,642	4,665	115,224	-	-	-	-	261,531
Transfer pricing (expense)/income	(45,021)	(8,003)	14,841	38,183	-	-	-	-
Net interest income from Islamic financing	1,095,740	87,419	844,666	107,124	3,002	-	-	2,137,951
Non-interest income	429,576	36,442	116,994	158,805	39,875	-	(2,851)	778,841
Operating income	1,525,316	123,861	961,660	265,929	42,877	-	(2,851)	2,916,792
Operating expense excluding depreciation and amortisation	(618,763)	(27,558)	(102,965)	(7,767)	(32,932)	(143,839)	2,851	(930,973)
Depreciation and amortisation	(22,169)	(849)	(1,062)	(233)	(4,440)	(55,644)	-	(84,397)
Total operating expense	(640,932)	(28,407)	(104,027)	(8,000)	(37,372)	(199,483)	2,851	(1,015,370)
Impairment charge, net	(594,395)	(71,164)	(681,616)	-	-	-	-	(1,347,175)
Net profit/(loss)	289,989	24,290	176,017	257,929	5,505	(199,483)	-	554,247
Segment assets	18,042,233	5,000,201	6,837,260	9,459,513	591,486	-	(39,067)	39,891,626
Unallocated assets	-	-	-	-	-	936,694	-	936,694
Total assets	18,042,233	5,000,201	6,837,260	9,459,513	591,486	936,694	(39,067)	40,828,320
Segment liabilities	14,179,928	3,765,816	9,976,994	4,444,948	539,236	-	(39,067)	32,867,855
Unallocated liabilities	-	-	-	-	-	390,153	-	390,153
Total liabilities	14,179,928	3,765,816	9,976,994	4,444,948	539,236	390,153	(39,067)	33,258,008

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

24. Operating segments (continued)

	Retail Banking AED'000	Wholesale banking AED'000	Business banking AED'000	Treasury and other AED'000	Insurance business AED'000	Unallocated cost AED'000	Consolidation elimination AED'000	Total AED'000
30 September 2015 (un-audited)								
Net external interest income	1,040,077	59,153	819,686	86,319	1,020	-	-	2,006,255
Income from Islamic financing net of distribution to depositors	145,961	1,430	123,819	-	-	-	-	271,210
Net transfer pricing income/(expense)	(29,756)	1,952	3,285	24,519	-	-	-	-
Net interest/income from Islamic financing	1,156,282	62,535	946,790	110,838	1,020	-	-	2,277,465
Non-interest income	458,296	14,690	120,889	44,845	24,620	-	-	663,340
Operating income	1,614,578	77,225	1,067,679	155,683	25,640	-	-	2,940,805
Operating expense excluding depreciation	(691,465)	(20,476)	(125,522)	(5,291)	(13,538)	(200,835)	-	(1,057,127)
Depreciation	(29,263)	(686)	(1,486)	(99)	(1,564)	(59,315)	-	(92,413)
Total operating expense	(720,728)	(21,162)	(127,008)	(5,390)	(15,102)	(260,150)	-	(1,149,540)
Impairment charge net of (write off)/recovery	(428,549)	(11,899)	(261,441)	-	-	-	-	(701,889)
Net profit/(loss)	465,301	44,164	679,230	150,293	10,538	(260,150)	-	1,089,376
As at 31 December 2015 (audited)								
Segment assets	18,594,936	2,809,313	7,832,229	9,874,195	525,519	-	(69,616)	39,566,576
Unallocated assets	-	-	-	-	-	986,478	-	986,478
Total assets	18,594,936	2,809,313	7,832,229	9,874,195	525,519	986,478	(69,616)	40,553,054
Segment liabilities	15,523,854	2,634,077	9,294,975	4,528,641	483,895	-	(69,616)	32,395,826
Unallocated liabilities	-	-	-	-	-	439,780	-	439,780
Total liabilities	15,523,854	2,634,077	9,294,975	4,528,641	483,895	439,780	(69,616)	32,835,606

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

25. Related parties balances

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

	Nine month period ended 30 September 2016 (un-audited) AED'000	Nine month period ended 30 September 2015 (un-audited) AED'000
<i>Transactions during the period</i>		
Interest income	236	160
Interest expense	8,996	5,514
Commission income	45	429
Directors' remuneration, sitting fees and other expenses	5,326	5,766
Remuneration payable to key management personnel	7,956	6,611
	<u>30 September 2016 (un-audited) AED'000</u>	<u>31 December 2015 (audited) AED'000</u>
<i>Balances</i>		
<i>Loans and advances:</i>		
- Shareholders and their related companies	346	129
- Directors and their related companies	238	131
- Key management personnel	8,597	5,050
	<u>9,181</u>	<u>5,310</u>
<i>Deposits</i>		
- Shareholders and their related companies	2,121,234	1,683,511
- Directors and their related companies	8,658	12,945
- Key management personnel	8,073	9,540
	<u>2,137,965</u>	<u>1,705,996</u>
<i>Irrecoverable commitments and contingent liabilities and forward contracts</i>		
- Shareholders and their related companies	134,295	140,179
- Directors and their related companies	403	423
	<u>134,698</u>	<u>140,602</u>

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

25. Related parties balances (continued)

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Insurance related receivables</i>		
Due from policy holders	29,951	19,312
<i>Insurance related payables</i>		
Due to policy holders	236	614

26. Capital adequacy

Capital structure and capital adequacy as per Basel II requirement as at 30 September 2016

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

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Tier 1 capital</i>		
Ordinary share capital	1,676,245	1,676,245
Share premium	110,350	110,350
Statutory and other reserves	3,931,954	3,803,228
Retained earnings	1,246,414	1,264,828
Total	6,964,963	6,854,651
<i>Deduction</i>		
Investment in RAKNIC	(312,886)	(317,244)
Tier 1 Capital	6,652,077	6,537,407
Tier 2 capital	-	-
Total regulatory capital	6,652,077	6,537,407

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

26. Capital adequacy (continued)

	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Risk weighted assets</i>		
Credit risk	25,899,829	25,084,932
Market risk	211,482	8,547
Operational risk	1,735,802	1,735,802
Total risk weighted assets	27,847,113	26,829,281
Capital adequacy ratio on regulatory capital	23.89%	24.37%
Capital adequacy ratio on Tier 1 capital	23.89%	24.37%

The above ratios are computed without considering current year profit.

27. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operations or to undertake a transaction on adverse terms. At 30 September 2016, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial assets and liabilities:

	Fair value		Carrying value	
	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000	30 September 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>Assets</i>				
Loan and advances	28,380,468	28,005,631	28,002,994	27,798,096
Investment securities	4,297,131	4,193,909	4,309,631	4,115,072
Cash and balances with the UAE Central Bank	4,865,792	4,911,482	4,863,625	4,908,196
Due from other banks	1,744,388	1,907,656	1,754,424	1,906,813
Total financial assets	39,287,779	39,018,678	38,930,674	38,728,177
<i>Liabilities</i>				
Due to other banks	951,138	1,057,492	946,797	1,056,141
Deposits from customer	28,485,675	27,883,754	28,365,052	27,820,105
Debt securities issued	2,768,579	2,864,727	2,768,579	2,864,727
Total financial liabilities	32,205,392	31,805,973	32,080,428	31,740,973

**Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)**

28. Fair value hierarchy

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

Quoted market prices - Level 1

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

Valuation techniques using observable inputs - Level 2

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

Valuation techniques using significant unobservable inputs - Level 3

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

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

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

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
30 September 2016 (un-audited)				
Asset at fair value				
<i>(Available-for-sale financial assets)</i>				
Investment securities - debt	4,032,358	-	223,868	4,256,226
Investment securities - equity	22,468	-	107	22,575
Foreign exchange contracts	-	3,191	-	3,191
Derivative financial instruments	-	62,801	-	62,801
Held-for-trading				
Investment market fund	4,021	-	-	4,021
Investment - debt securities	14,309	-	-	14,309
	<u>4,073,156</u>	<u>65,992</u>	<u>223,975</u>	<u>4,363,123</u>
Liabilities at fair value				
Foreign exchange contracts	-	3,242	-	3,242
Derivative financial instruments	-	1,656	-	1,656
	<u>-</u>	<u>4,898</u>	<u>-</u>	<u>4,898</u>

Notes to the condensed consolidated financial statements
for the period from 1 January 2016 to 30 September 2016 (continued)

28. Fair value hierarchy (continued)

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
30 December 2015 (audited)				
<i>Asset at fair value</i>				
<i>(Available-for-sale financial assets)</i>				
Investment securities - debt	74,746	-	-	74,746
Investment securities - equity	29,284	-	107	29,391
Foreign exchange contracts	-	238	-	238
Derivative financial instruments	-	23,258	-	23,258
<i>Held-for-trading</i>				
Investment market fund	3,966	-	-	3,966
<i>Asset at amortised cost</i>				
Investment securities - debt	3,865,421	-	220,385	4,085,806
	<u>3,973,417</u>	<u>23,496</u>	<u>220,492</u>	<u>4,217,405</u>
<i>Liabilities at fair value</i>				
Foreign exchange contracts	-	3	-	3
	<u>-</u>	<u>3</u>	<u>-</u>	<u>3</u>

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

29. Comparative figures

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

Extract of condensed consolidated statement of financial position:

	As previously reported AED'000	Reclassifications AED'000	As reclassified AED'000
<i>Assets - extract</i>			
Investment securities	4,114,981	91	4,115,072
Other assets	424,676	(91)	424,585
	<u>4,539,657</u>	<u>(91)</u>	<u>4,539,566</u>

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

30. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the nine month periods ended 30 September 2016 and 2015.

31. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements were approved on 27 October 2016.