

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

**Review report and interim financial information
for the period from 1 January 2018 to 30 September 2018**

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 2018 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.

Deloitte & Touche (M.E.)



Akbar Ahmad
Registration No.: 1141
22 October 2018
Dubai
United Arab Emirates

**Condensed consolidated statement of financial position
as at 30 September 2018**

	Notes	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
ASSETS			
Cash and balances with UAE Central Bank	4	4,513,911	4,740,566
Due from other banks, net	5	3,937,561	3,799,239
Loans and advances, net	6	33,231,734	32,240,193
Investment securities, net	7	7,228,644	5,568,749
Insurance contract assets and receivables, net		371,985	424,897
Customer acceptances		592,447	171,307
Other assets	8	844,519	545,935
Goodwill and other intangible assets		168,524	170,932
Property and equipment		861,887	875,340
Total assets		51,751,212	48,537,158
LIABILITIES AND EQUITY			
Liabilities			
Due to other banks	9	3,013,927	2,764,199
Deposits from customers	10	34,645,401	32,175,874
Debt securities issued and other borrowings	11	4,908,448	4,169,302
Insurance contract liabilities and payables		493,326	516,991
Customer acceptances		592,447	171,307
Other liabilities	12	1,145,269	871,041
Total liabilities		44,798,818	40,668,714
Equity			
Share capital	13	1,676,245	1,676,245
Legal reserve		950,431	950,431
Retained earnings		1,285,971	2,101,295
Other reserves		2,995,494	3,089,364
Equity attributable to owners of the Bank		6,908,141	7,817,335
Non-controlling interests		44,253	51,109
Total equity		6,952,394	7,868,444
Total Liabilities and Equity		51,751,212	48,537,158

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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 2018 to 30 September 2018**

	Notes	Three months period ended 30 September		Nine months period ended 30 September	
		2018 (un-audited) AED'000	2017 (un-audited) AED'000	2018 (un-audited) AED'000	2017 (un-audited) AED'000
Interest income	16	795,945	718,525	2,256,558	2,063,970
Interest expense	16	(163,712)	(92,908)	(428,953)	(252,215)
Net interest income		632,233	625,617	1,827,605	1,811,755
Income from Islamic financing	17	106,815	84,201	294,199	251,911
Distribution to depositors	17	(30,313)	(10,496)	(55,887)	(28,271)
Net income from Islamic financing		76,502	73,705	238,312	223,640
Net interest income and net income from Islamic financing		708,735	699,322	2,065,917	2,035,395
Net fees and commission income	18	186,160	175,782	539,667	546,828
Foreign exchange & derivative income		43,295	34,498	108,503	101,806
Gross insurance underwriting profit		13,308	15,968	42,990	45,100
Investment income	19	888	10,876	25,146	88,360
Other operating income		19,230	23,801	52,495	55,740
Non-interest income		262,881	260,925	768,801	837,834
Operating income		971,616	960,247	2,834,718	2,873,229
Operating expenses	20	(370,441)	(366,113)	(1,113,066)	(1,082,019)
Operating profit before provision for impairment		601,175	594,134	1,721,652	1,791,210
Provision for credit loss, net	21	(361,079)	(369,331)	(1,049,835)	(1,184,943)
Profit for the period		240,096	224,803	671,817	606,267
<i>Attributed to:</i>					
Owners of the Bank		238,929	223,454	668,763	602,703
Non-controlling interests		1,167	1,349	3,054	3,564
Profit for the period		240,096	224,803	671,817	606,267
<i>Earnings per share:</i>					
Basic and diluted in AED	22	0.14	0.13	0.40	0.36

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 2018 to 30 September 2018**

	Three months period ended 30 September		Nine months period ended 30 September	
	2018 (un-audited) AED'000	2017 (un-audited) AED'000	2018 (un-audited) AED'000	2017 (un-audited) AED'000
Profit for the period	240,096	224,803	671,817	606,267
<i>Other comprehensive income:</i>				
Net changes in fair value of investment securities (debt instruments) at FVTOCI that may be reclassified subsequently to profit or loss	633	5,119	(70,089)	15,479
Net changes in fair value of investment securities (equity instruments) at FVTOCI that will not be reclassified subsequently to profit or loss	11,294	2,088	(15,202)	(5,087)
Net changes in fair value arising from cash flow hedges	(11,758)	-	(13,751)	-
Other comprehensive (loss)/income for the period	169	7,207	(99,042)	10,392
Total comprehensive income for the period	240,265	232,010	572,775	616,659
<i>Attributed to:</i>				
Owners of the Bank	238,992	230,665	570,150	613,099
Non-controlling interests	1,273	1,345	2,625	3,560
Total comprehensive income for the period	240,265	232,010	572,775	616,659

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

**Condensed consolidated statement of changes in equity
for the period from 1 January 2018 to 30 September 2018**

	Share capital AED'000	Legal reserve AED'000	Retained earnings AED'000	Other reserves AED'000	Equity attributable to owners of the Bank AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 31 December 2016 (audited)	1,676,245	950,431	3,031,209	1,879,029	7,536,914	43,465	7,580,379
Profit for the period	-	-	-	602,703	602,703	3,564	606,267
Other comprehensive income	-	-	10,396	-	10,396	(4)	10,392
Total comprehensive income for the period	-	-	10,396	602,703	613,099	3,560	616,659
Treasury stock	-	-	2,397	-	2,397	-	2,397
Dividend paid	-	-	-	(502,798)	(502,798)	(2,284)	(505,082)
Zakat	-	-	-	(394)	(394)	-	(394)
Directors' remuneration	-	-	-	(4,000)	(4,000)	-	(4,000)
At 30 September 2017 (un-audited)	1,676,245	950,431	3,044,002	1,974,540	7,645,218	44,741	7,689,959
Balance at 31 December 2017 (audited)	1,676,245	950,431	2,101,295	3,089,364	7,817,335	51,109	7,868,444
Impact of adopting IFRS 9 1 January 2018	-	-	(976,181)	4,743	(971,438)	(6,054)	(977,492)
Profit for the period	1,676,245	950,431	1,125,114	3,094,107	6,845,897	45,055	6,890,952
Other comprehensive income	-	-	668,763	-	668,763	3,054	671,817
Total comprehensive income for the period	-	-	668,763	(98,613)	(98,613)	(429)	(99,042)
Dividend paid	-	-	668,763	(98,613)	570,150	2,625	572,775
Directors' remuneration	-	-	(502,873)	-	(502,873)	(3,427)	(506,300)
At 30 September 2018 (un-audited)	1,676,245	950,431	1,285,971	2,995,494	6,908,141	44,253	6,952,394

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 2018 to 30 September 2018**

	Nine months period ended 30 September	
	2018 (un-audited) AED'000	2017 (un-audited) AED'000
<i>Cash flows from operating activities</i>		
Profit for the period	671,817	606,267
Adjustments:		
Provision for credit loss, net	1,049,835	1,184,943
Depreciation of property and equipment	73,401	73,911
Amortisation of intangible assets	2,407	2,407
Gain on disposal of property and equipment	(262)	(39)
Amortisation of (discount)/ premium relating to investments securities	(31,658)	2,186
Gain on sale of investment securities	(9,460)	(88,264)
Fair value loss on investment securities	1,234	3,882
	<hr/>	<hr/>
Changes in operating assets and liabilities	1,757,314	1,785,293
Decrease/(increase) in deposits with the UAE Central Bank	505,462	(280,322)
Increase in due from other banks with original maturities of three month or over	(607,306)	(916,914)
Increase in loans and advances, net	(2,936,089)	(4,048,093)
Decrease/(increase) in insurance contract assets and receivables	28,378	(75,164)
Increase in other assets and customer acceptances	(719,724)	(86,410)
Increase in due to other banks	249,728	953,596
Increase in deposits from customers	2,469,527	2,058,314
(Decrease)/increase in insurance contract liabilities and payables	(23,665)	73,347
Increase in other liabilities and customer acceptances	676,632	173,120
	<hr/>	<hr/>
Net cash generated from/(used in) operating activities	1,400,257	(363,233)
<i>Cash flows from investing activities</i>		
Purchase of investment securities	(3,318,607)	(5,379,473)
Purchase of property and equipment	(59,961)	(69,511)
Proceeds from maturity/disposal of investments	1,584,922	5,451,647
Proceeds from disposal of property and equipment	275	416
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Net cash (used in)/generated from investing activities	(1,793,371)	3,079
<i>Cash flows from financing activities</i>		
Dividends paid	(506,300)	(505,082)
Zakat paid	-	(394)
Directors' remuneration	(5,033)	(4,000)
Issue of debt securities and other borrowings	739,146	174,839
Treasury stock	-	2,397
	<hr/>	<hr/>
Net cash generated from/(used in) financing activities	227,813	(332,240)
Net decrease in cash and cash equivalents	(165,301)	(692,394)
Cash and cash equivalents, beginning of the period	2,252,198	2,141,959
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Cash and cash equivalents, end of the period (Note 24)	2,086,897	1,449,565
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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 2018 to 30 September 2018**

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 eight branches in the UAE.

At 30 September 2018, The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and six subsidiaries (together referred to as the “Group”). The condensed consolidated interim financial information for the nine month period ended 30 September 2018 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	Authorised USD 50,000 Issued USD 100	100%	Cayman Island	To facilitate the issue Euro medium term notes (EMTN) under the Bank’s EMTN program.
Rak Global Markets Cayman Limited	Authorised USD 50,000 Issued USD 1	100%	Cayman Island	To facilitate Treasury transactions.

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

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

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

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2018, have been adopted in these condensed consolidated financial statements. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1 *First-time Adoption of International Financial Reporting Standards* and IAS 28 *Investment in Associates and Joint Ventures*.
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*
- Amendments to IFRS 2 *Share Based Payment* regarding classification and measurement of share based payment transactions.
- Amendments to IAS 40 *Investment Property* to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management’s intentions for the use of a property by itself does not constitute evidence of a change in use.
- IFRS 15 *Revenue from Contracts with Customers*
- Amendments to IFRS 15 *Revenue from Contracts with Customers* to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.
- Amendments to IFRS 4 *Insurance Contracts*: Relating to the different effective dates of IFRS 9 *Financial Instruments* and the forthcoming new insurance contracts standard.

2.2 New and revised IFRS in issue but not yet effective

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

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRIC 23 <i>Uncertainty over Income Tax Treatments</i> The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers: <ul style="list-style-type: none"> • Whether tax treatments should be considered collectively; • Assumptions for taxation authorities' examinations; • The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and • The effect of changes in facts and circumstances. 	1 January 2019
Annual Improvements to IFRS Standards 2015 - 2017 Cycle amending IFRS 3 <i>Business Combinations</i> , IFRS 11 <i>Joint Arrangements</i> , IAS 12 <i>Income Taxes</i> and IAS 23 <i>Borrowing Costs</i> .	1 January 2019
Amendments to IFRS 9 <i>Financial Instruments</i> : Relating to prepayment features with negative compensation. This amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.	1 January 2019

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (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 (continued)

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
IFRS 16 <i>Leases</i>	1 January 2019
IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16’s approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	
Amendments to IAS 28 <i>Investment in Associates and Joint Ventures</i> relating to long-term interests in associates and joint ventures. These amendments clarify that an entity applies IFRS 9 <i>Financial Instruments</i> to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.	1 January 2019
Amendments to IAS 19 <i>Employee Benefits</i> relating to Plan Amendment, Curtailment or Settlement. This amendment mentions that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement. In addition, amendments have been included to clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling.	1 January 2019
IFRS 17 <i>Insurance Contracts</i>	1 January 2021
IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 <i>Insurance Contracts</i> as of 1 January 2021.	
Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely. Adoption is still permitted.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s condensed consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments, except for IFRS 16 and 17, may have no material impact on the condensed consolidated financial statements of the Group in the period of initial application.

The Group has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to amounts previously recognized in the condensed consolidated interim financial information. The Group did not early adopt any of IFRS 9 in previous periods.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

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

2.3 New and revised IFRSs applied with material effect on the consolidated financial statements

As permitted by transitional provisions of IFRS 9, the Group elected not to restate the comparative figures. Any adjustments to carrying amount of financial assets and liabilities at the date of transitions were recognized in opening retained earnings and other reserves of the current period.

The adoption of IFRS 9 has resulted in changes in the accounting policies for recognition, classification and measurement of financial assets and liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 ‘Financial Instruments: Disclosures’.

Set out below are the disclosures relating to the impact of IFRS 9 on the Group. Further details of the specific IFRS 9 policies applied in the current period are described in more details in Note 3.

The following table reconciles the original measurement categories and carrying amounts in accordance with IAS 39 and the new measurement categories with those under IFRS 9 for the Group’s financial assets and financial liabilities as at 1 January 2018:

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount AED’000	Impact of IFRS 9		New carrying amount AED’000
				Re-measurement AED’000	Re-classification AED’000	
Financial assets						
<u>On balance sheet</u>						
Cash and balances with the Central Bank	Loans and receivables	Amortised cost	4,740,566	-	-	4,740,566
Due from other banks	Loans and receivables	Amortised cost	3,799,239	(19,693)	-	3,779,546
Loans and advances, net	Loans and receivables	Amortised cost	32,240,193	(912,475)	-	31,327,718
Investment securities - debt	Available-for-sale	Amortised cost	3,447,430	(19,389)	5,477	3,433,518
Investment securities - debt	Available-for-sale	FVOCI	2,014,277	(571)	-	2,013,706
Investment securities – equity	Available-for-sale	FVOCI	37,576	-	-	37,576
Investment securities – equity	Available-for-sale	FVTPL	25,186	-	-	25,186
Investment securities – Funds	Available-for-sale	FVTPL	40,006	-	-	40,006
Investment securities – Funds	Held for trading	FVTPL	4,274	-	-	4,274
Insurance contract assets and receivables	Loans and receivables	Amortised cost	424,897	(27,972)	-	396,925
Customer acceptances	Loans and receivables	Amortised cost	171,307	(1,226)	-	170,081
Interest rates swaps and other derivatives	Held at fair value	FVTPL	25,540	-	-	25,540
			<u>46,970,491</u>	<u>(981,326)</u>	<u>5,477</u>	<u>45,994,642</u>
<u>Off balance sheet</u>						
Loan commitments, financial guarantees and letters of credit	Amortised cost	Amortised cost	1,283,090	(1,643)	-	1,281,447
			<u>48,253,581</u>	<u>(982,969)</u>	<u>5,477</u>	<u>47,276,089</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

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

**2.3 New and revised IFRSs applied with material effect on the consolidated financial statements
(continued)**

The impact from the adoption of IFRS 9 as at 1 January 2018 has resulted in a decrease in retained earnings by AED 976.2 million, increase in other reserves by AED 4.7 million and decrease in non-controlling interest by AED 6.1 million:

	Retained earnings AED’000	Other reserves AED’000	Non- Controlling interest AED’000
Closing balance under IAS 39 (31 December 2017)	2,101,295	3,089,364	51,109
<i><u>Impact on reclassification and re-measurement:</u></i>			
Investment securities (equities) at fair value through comprehensive income reclassified to fair value through profit or loss	(640)	640	-
Investment securities (funds) at fair value through other comprehensive income reclassified to fair value through profit or loss	1,374	(1,374)	-
Investment securities (debt) reclassified from available-for-sale to those measured at amortised cost	-	5,477	-
	<u>734</u>	<u>4,743</u>	<u>-</u>
<i><u>Impact on recognition of expected credit losses:</u></i>			
Due from other banks	(19,565)	-	(128)
Loans and advances, net	(912,475)	-	-
Investment securities (debt) at fair value through comprehensive income	(455)	-	(116)
Investment securities (debt) at amortised cost	(19,389)	-	-
Insurance contract assets and receivables	(22,162)	-	(5,810)
Customer acceptances	(1,226)	-	-
Financial guarantees and letters of credit	(1,643)	-	-
	<u>(976,915)</u>	<u>-</u>	<u>(6,054)</u>
Opening balance under IFRS 9 on date of initial application of 1 January 2018	<u><u>1,125,114</u></u>	<u><u>3,094,107</u></u>	<u><u>45,055</u></u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

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

**2.3 New and revised IFRSs applied with material effect on the consolidated financial statements
(continued)**

The following table reconciles the closing impairment allowance for financial assets in accordance with IAS 39 as at 31 December 2017 to the opening expected credit loss (ECL) allowance determined in accordance with IFRS 9 as at 1 January 2018:

	31 December 2017 AED’000	Re- measurement AED’000	1 January 2018 as restated AED’000
Due from other banks	-	19,693	19,693
Loans and advances, net	995,171	912,475	1,907,646
Investment securities	-	19,960	19,960
Insurance contract assets and receivables	23,973	27,972	51,945
Customer acceptances	-	1,226	1,226
Loan commitments, financial guarantees and letters of credit	-	1,643	1,643
	<u>1,019,144</u>	<u>982,969</u>	<u>2,002,113</u>

The impact of adoption for certain financial assets in the above tables was amended, as compared to the impact disclosed in the first quarter, to reflect the refined reclassification and measurement, and impact of expected credit losses on the retained earnings and other reserves opening balances pertaining to the Bank and its subsidiaries.

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 for the period/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 2017, except for the impact of the adoption of IFRS 9 below.

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.

As required by the circular no. 411/2018 dated 7 July 2018, the Group does not have any investments or exposures with Abraaj Group.

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 2017. In addition, results for the nine month period ended 30 September 2018 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2018.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (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) 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(e) below:

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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

3. Significant accounting policies (continued)

(c) Islamic financing (continued)

ii) Salam

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

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

iii) Mudaraba

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

iv) Wakala

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

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

v) Ijara

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

(d) 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 nine months excluding the statutory deposit required to be maintained with the UAE Central Bank.

(e) Significant accounting policies introduced on adoption of IFRS 9

(i) Classification of financial assets and financial liabilities

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

3. Significant accounting policies (continued)

(e) Significant accounting policies introduced on adoption of IFRS 9 (continued)

(i) Classification of financial assets and financial liabilities (continued)

Financial assets (continued)

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and loan commitments.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

3. Significant accounting policies (continued)

(e) Significant accounting policies introduced on adoption of IFRS 9 (continued)

(i) Classification of financial assets and financial liabilities (continued)

- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and
- its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. periodical reset of interest rate.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Derecognition

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

(ii) Measurement of financial assets and financial liabilities

Investment securities

The investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and
- equity investment securities designated as at FVOCI.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

3. Significant accounting policies (continued)

(e) Significant accounting policies introduced on adoption of IFRS 9 (continued)

(ii) Measurement of financial assets and financial liabilities (continued)

Investment securities (continued)

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

- Interest revenue using the effective interest method
- ECL and reversals, and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Financial liabilities

All financial liabilities are measured at amortised cost.

(iii) Impairment

Measurement of ECL

The Group recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

- Deposits and balances and due from banks;
- debt investment securities carried at FVOCI and amortised cost;
- loans and advances to customers;
- insurance assets and receivables
- customer acceptances and other financial assets;
- Loan commitments; and
- Financial guarantees and contracts

No impairment loss is recognised on equity investments.

With the exception of purchased or originated credit impaired (POCI) financial assets (which are considered separately below), ECLs are required to be measured through a loss allowance at an amount equal to:

- 12-month ECL, i.e. lifetime ECL that result from those default events on the financial instrument that are possible within 12 months after the reporting date, (referred to as Stage 1); or
- full lifetime ECL, i.e. lifetime ECL that result from all possible default events over the life of the financial instrument, (referred to as Stage 2 and Stage 3).

A loss allowance for full lifetime ECL is required for a financial instrument if the credit risk on that financial instrument has increased significantly since initial recognition. For all other financial instruments, ECLs are measured at an amount equal to the 12-month ECL.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

3. Significant accounting policies (continued)

(e) Significant accounting policies introduced on adoption of IFRS 9 (continued)

(iii) Impairment (continued)

Measurement of ECL (continued)

ECLs are a probability-weighted estimate of the present value of credit losses. These are measured as the present value of the difference between the cash flows due to the Group under the contract and the cash flows that the Group expects to receive arising from the weighting of multiple future economic scenarios, discounted at the asset's interest rate.

- for undrawn loan commitments, the ECL is the difference between the present value of the difference between the contractual cash flows that are due to the Group if the holder of the commitment draws down the loan and the cash flows that the Group expects to receive if the loan is drawn down; and
- for financial guarantee contracts, the ECL is the difference between the expected payments to reimburse the holder of the guaranteed debt instrument less any amounts that the Group expects to receive from the holder, the debtor or any other party.

The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original interest rate, regardless of whether it is measured on an individual basis or a collective basis.

The Group employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key input would be the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD); and
- exposure at default (EAD).

These parameters will be derived from our internally developed statistical models and other historical data. They will be adjusted to reflect forward-looking information.

Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may exceed the remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle. Products in scope of this exemption include credit cards, overdraft balances and certain revolving lines of credit. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

3. Significant accounting policies (continued)

(e) Significant accounting policies introduced on adoption of IFRS 9 (continued)

(iii) Impairment (continued)

Credit-impaired financial assets (continued)

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVTOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as timing of coupon payments, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default (see below) includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset. The cash shortfalls are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Write-offs

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The Group categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 180 days past due. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

3. Significant accounting policies (continued)

(e) Significant accounting policies introduced on adoption of IFRS 9 (continued)

(iii) Impairment (continued)

Financial guarantee contracts (continued)

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as at FVTPL and not arising from a transfer of a financial asset, are subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies.

Financial guarantee contracts not designated at FVTPL are presented as provisions in the consolidated statement of financial position and the remeasurement is presented in other revenue.

The Group has not designated any financial guarantee contracts as at FVTPL.

(iv) Derivatives and hedging

IFRS 9 introduces a new hedge accounting model that expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. The new model no longer specifies quantitative measures for effectiveness testing and does not permit hedge de-designation. As a result, the 80-125% range under IAS 39 is replaced by an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

IFRS 9 also introduces rebalancing of hedging relationships, whereby, if a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio under IFRS 9, but the risk management objective for that designated hedging relationship remains the same, the Bank shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in Income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in 'Other Operating Income'.

4. Cash and balances with UAE Central Bank

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Cash in hand	1,058,597	1,025,962
Balances with the UAE Central Bank	439,749	193,577
Statutory deposit with the UAE Central Bank	3,015,565	3,021,027
Certificates of deposit with the UAE Central Bank	-	500,000
	<hr/> 4,513,911 <hr/>	<hr/> 4,740,566 <hr/>

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

5. Due from other banks, net

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Placements with other banks	279,714	944,523
Demand deposits	353,541	277,161
Banker's acceptances	2,024,955	1,806,712
Syndicated loans	1,224,491	701,022
Other	79,736	69,821
	<hr/>	<hr/>
Total due from other banks	3,962,437	3,799,239
Provision for credit loss	(24,876)	-
	<hr/>	<hr/>
Net due from other banks	3,937,561	3,799,239
	<hr/> <hr/>	<hr/> <hr/>

The below represents deposits and balances due from:

Banks in UAE	472,738	220,742
Banks outside UAE	3,489,699	3,578,497
	<hr/>	<hr/>
Total due from other banks	3,962,437	3,799,239
	<hr/> <hr/>	<hr/> <hr/>

6. Loans and advances, net

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
(a) Loans and advances:		
Retail banking loans	18,855,303	18,828,884
Wholesale banking loans	7,854,078	6,494,211
Business banking loans	8,423,522	7,912,269
	<hr/>	<hr/>
Total loans and advances [Note 6(b)]	35,132,903	33,235,364
Provision for credit loss [Note 6(c)]	(1,901,169)	(995,171)
	<hr/>	<hr/>
Net loans and advances	33,231,734	32,240,193
	<hr/> <hr/>	<hr/> <hr/>
(b) Analysis of loans and advances:		
Personal loans	7,048,627	6,381,452
Mortgage loans	4,745,525	4,625,072
Credit cards	3,325,356	3,551,725
Auto loans	1,840,112	2,336,306
Business banking RAK finance loans	4,487,613	4,684,424
Business banking other loans	3,935,909	3,227,845
Wholesale banking loans	7,854,078	6,494,211
Other retail loans	1,895,683	1,934,329
	<hr/>	<hr/>
Total loans and advances	35,132,903	33,235,364
	<hr/> <hr/>	<hr/> <hr/>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

6. Loans and advances, net (continued)

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
(c) Provision for credit loss:		
Balance at the beginning of the period/year	995,171	1,053,429
Impact of adoption of IFRS 9	912,475	-
Provision for the period/year	1,120,257	1,685,001
Written-off during the period/year	(1,126,734)	(1,743,259)
Balance at the end of the period/year (Note 28)	1,901,169	995,171
(d) Provision for credit loss on loans and advances, net of recovery - for nine months period ended:		
	30 September 2018 (un-audited) AED'000	30 September 2017 (un-audited) AED'000
Impairment allowance for the period	1,120,257	1,274,225
Net recovery during the period	(88,184)	(89,282)
Net impairment charge for the period (Note 21)	1,032,073	1,184,943
(e) Provision for credit loss on loans and advances, net of recovery - for three months period ended:		
	30 September 2018 (un-audited) AED'000	30 September 2017 (un-audited) AED'000
Impairment allowance for the period	377,641	405,787
Net recovery during the period	(29,925)	(36,456)
Net impairment charge for the period (Note 21)	347,716	369,331
(f) Islamic financing assets		
The below table summarises the Islamic financing assets that are part of loans and advances above:		
	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
i) Islamic financing assets		
Islamic retail financing assets	3,313,264	2,941,075
Islamic business banking assets	1,444,982	1,143,475
Islamic wholesale banking assets	598,925	344,451
Total Islamic financing assets	5,357,171	4,429,001
Provision for credit loss	(267,617)	(123,835)
	5,089,554	4,305,166

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

6. Loans and advances, net (continued)

(f) Islamic financing assets (continued)

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
<i>ii) Analysis of Islamic financing assets</i>		
Islamic Salam Personal finance	2,071,952	1,529,271
Islamic Auto Murabaha	431,771	643,196
Islamic Business banking Finance	1,444,982	1,143,475
Islamic Ijara Property Finance	696,984	647,941
Islamic Credit Cards	111,242	119,676
Islamic wholesale banking	598,925	344,451
Islamic finance - other	1,315	991
	<u>5,357,171</u>	<u>4,429,001</u>

7. Investment securities, net

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
<i>Securities at fair value through other comprehensive income</i>		
Quoted equity securities	220,771	61,068
Unquoted equity securities	2,612	1,694
Quoted debt securities*	2,228,074	5,185,470
Unquoted debt securities	-	276,237
Quoted funds	-	20,853
Unquoted funds	-	19,153
	<u>2,451,457</u>	<u>5,564,475</u>
<i>Securities at fair value through profit or loss</i>		
Quoted funds	23,571	4,274
Unquoted funds	37,845	-
	<u>61,416</u>	<u>4,274</u>
<i>Securities held at amortised cost</i>		
Quoted debt securities*	4,342,782	-
Unquoted debt securities	406,851	-
	<u>4,749,633</u>	<u>-</u>
Total investment securities	7,262,506	5,568,749
Provision for credit loss (Note 28)	(33,862)	-
Net investment securities	7,228,644	5,568,749

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

7. Investment securities (continued)

*As at 30 September 2018, quoted debt securities with fair value of AED 896 million (31 December 2017: AED 1,324 million) have been given as collateral against repo borrowings of AED 853 million (31 December 2017: AED 1,248 million) [Note 9].

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Federal and local Government – UAE	497,615	343,081
Government related entity - UAE	1,070,278	1,063,428
Government - GCC	1,366,685	1,001,112
Government - other	847,270	332,519
Banks and financial institutions - UAE	537,627	443,836
Banks and financial institutions - GCC	171,817	226,782
Banks and financial institutions - other	1,083,686	1,034,342
Public limited companies - UAE	576,490	441,310
Public limited companies - GCC	270,353	276,158
Public limited companies - other	555,886	299,139
Total debt securities	6,977,707	5,461,707
Quoted equity securities	220,771	61,068
Quoted funds	23,571	25,127
Unquoted funds	37,845	19,153
Unquoted equity securities	2,612	1,694
Total investment securities	7,262,506	5,568,749

8. Other assets

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Interest receivable	286,715	222,853
Profit receivable on Islamic financing assets	58,988	52,598
Prepayments and deposits	69,424	84,350
Interest rate swaps and other derivatives	100,753	25,540
Insurance related receivables and assets	59,703	45,383
Gold bullion	31,936	-
Other	237,000	115,211
	844,519	545,935

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

9. Due to other banks

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Term borrowings	2,125,721	1,351,629
Repurchase agreements (Note 7)	853,335	1,247,673
Demand deposits	34,871	164,897
	<u>3,013,927</u>	<u>2,764,199</u>

10. Deposits from customers

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Time deposits	14,116,470	10,683,274
Current accounts	16,581,617	17,289,030
Saving deposits	2,844,354	3,103,402
Call deposits	1,102,960	1,100,168
	<u>34,645,401</u>	<u>32,175,874</u>

Deposits include AED 1,947 million (31 December 2017: AED 1,544 million) held by the Group as cash collateral for loans and advances granted to customers.

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

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Wakala deposits	2,623,522	779,242
Mudaraba term investment deposits	14,595	15,275
Murabaha Term Deposit	1,600,185	736,063
Qard-E-Hassan - current accounts	782,021	793,969
Mudaraba - current accounts	474,921	698,753
Mudaraba - saving accounts	182,083	162,494
Mudaraba - call deposits	26,147	27,816
	<u>5,703,474</u>	<u>3,213,612</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

11. Debt securities in issue and other borrowings

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
USD 500 million medium term note issued at discount in September 2014 (a)	1,834,419	1,832,325
USD 300 million medium term note issued at premium in March 2015 (a)	1,103,633	1,105,376
USD 50 million floating rate notes issued at discount in July 2017 (a)	182,877	182,669
USD 145 million private placement net of discount (a)	522,508	-
USD 350 million syndicated borrowing (b)	1,285,550	1,285,550
USD 80 million bilateral borrowing (c)	293,840	-
Less: Own investment in debt securities issued	(285,640)	(211,720)
Less: Debt security and other borrowing costs	(2,950)	(4,597)
Less: Syndicated loan issue costs	(7,179)	(9,735)
Fair value adjustment on hedged debt securities in issue	(18,610)	(10,566)
	4,908,448	4,169,302

(a) The Group issued USD 500 million Euro Medium Term Notes (EMTN) in September 2014 under its USD 1 billion EMTN programme through its subsidiary RAK Funding Cayman Limited. The initial tranche was issued at a discounted rate of 99.275%. In March 2015, a second tranche of USD 300 million were issued under this programme at a premium rate of 100.875%. These EMTN's mature in 2019 and carry a fixed interest rate of 3.25% per annum which is payable half-yearly in arrears. Moreover, the Group increased its EMTN Programme to USD 2 billion in the subsequent period.

Under the same EMTN Programme, the Group issued USD 50 million floating rate notes in July 2017 which matures in 2021. These carry a floating rate of USD 3 months LIBOR +1.5% per annum.

During the second quarter of 2018, the Group issued USD 145 million of bonds in June 2018 through a private placement with an interest rate of USD 3 months LIBOR +1.4% which mature in in June 2023.

- (b) During the third quarter of year 2017, the Group arranged a three year syndicated borrowing of USD 350 million maturing in 2020. This syndicated borrowing carries an interest rate of USD 3 months LIBOR + 1.55% per annum.
- (c) In June 2018 the Group borrowed USD 80 million at an interest rate of USD 3 months LIBOR + 1.25% per annum and matures in June 2021.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

12. Other liabilities

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Interest payable	173,374	84,361
Profit distributable on Islamic deposits	21,388	9,489
Accrued expenses	133,385	122,065
Managers cheques issued	188,669	214,069
Provision for employees' end-of-service benefits	113,035	107,481
Interest rate swaps and other derivatives	131,014	23,236
Mortgage payables and liabilities	15,562	13,399
Credit card payables and liabilities	43,478	23,812
Asset based finance payables and liabilities	15,902	39,855
Insurance related payables and liabilities	34,234	35,248
Provision for expected credit loss on financial guarantees, letter of credit and customer acceptances	4,984	-
Others	270,244	198,026
	<u><u>1,145,269</u></u>	<u><u>871,041</u></u>

13. Share capital and dividend

At 30 September 2018, the authorised, issued and fully paid share capital of the Bank comprised 1,676 million shares of AED 1 each (31 December 2017: 1,676 million shares of AED 1 each).

At the meeting held on 14 March 2018, the shareholders of the Bank approved a cash dividend of 30% amounting to AED 503 million of the issued and paid up capital in respect of the year ended 31 December 2017 (2016: 30% cash dividend amounting to AED 503 million).

14. Contingencies and commitments

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
Irrevocable commitments to extend credit	1,812,482	533,133
Letters of guarantee	1,355,576	1,040,287
Letters of credit	162,289	242,803
Capital commitments and others	25,712	13,519
	<u><u>3,356,059</u></u>	<u><u>1,829,742</u></u>

The Group is holding AED 4.98 million (31 December 2017: Nil) provision for expected credit loss on commitments as per IFRS 9.

Commitments to extend credit shown above represent unfunded amounts out of approved limits offered to customers, which are irrevocable by the Group. Group holds AED 2.8 Million (31 December 2017: Nil) of IFRS 9 provision related to irrevocable commitments. Commitments to extend credit amounting to AED 6,624 million (31 December 2017: AED 8,364 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 2018 to 30 September 2018 (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 2018 and 31 December 2017 are as follows:

	Fair Values		
	Assets AED'000	Liability AED'000	Notional AED'000
30 September 2018			
Foreign exchange contracts	50,686	63,054	9,118,080
Interest rate swaps	11,959	32,066	5,843,619
Other derivative contracts	38,108	35,894	4,821,366
	100,753	131,014	
31 December 2017			
Foreign exchange contracts	13,065	3,023	4,838,782
Interest rate swaps	2,759	12,267	3,856,482
Other derivative contracts	9,716	7,946	3,449,561
	25,540	23,236	

16. Interest income and expense

	Three months period ended 30 September		Nine months period ended 30 September	
	2018 (un-audited) AED'000	2017 (un-audited) AED'000	2018 (un-audited) AED'000	2017 (un-audited) AED'000
Interest income				
Personal loans	93,394	87,415	273,320	249,366
Mortgage loans	47,477	40,502	133,632	118,939
Credit cards	175,467	183,437	504,853	539,419
Auto loans	23,395	27,381	73,459	81,806
Business banking RAK Finance loans	165,816	177,929	479,966	520,674
Wholesale banking loans	89,120	56,209	231,050	142,398
Business banking other loans	72,390	63,593	204,676	181,587
Other retail banking loans	16,527	12,620	48,533	33,275
Investment securities	70,027	45,378	200,190	138,182
Deposits with the U.A.E. Central Bank	3,493	1,377	6,215	2,997
Other banks	38,839	22,684	100,664	55,327
	795,945	718,525	2,256,558	2,063,970
Interest expense				
Due to customers	92,224	62,507	242,999	173,827
Debt securities issued and other borrowings	51,408	21,008	130,828	57,790
Borrowings from other banks	20,080	9,393	55,126	20,598
	163,712	92,908	428,953	252,215

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

17. Income from Islamic Financing and distribution to depositors

	Three months period ended 30 September		Nine months period ended 30 September	
	2018	2017	2018	2017
	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000
Islamic Salam personal finance	43,851	25,444	111,757	78,167
Islamic Auto Murabaha	7,411	12,513	25,719	40,568
Islamic business banking finance	39,509	35,567	114,855	104,321
Islamic wholesale banking finance	7,491	3,249	17,835	8,001
Islamic property finance	8,553	7,428	24,033	20,854
	<u>106,815</u>	<u>84,201</u>	<u>294,199</u>	<u>251,911</u>
Distribution of profit on Islamic term investment deposits	29,609	9,339	53,332	24,871
Distribution of profit on Islamic demand deposits	704	1,157	2,555	3,400
	<u>30,313</u>	<u>10,496</u>	<u>55,887</u>	<u>28,271</u>

18. Net fees and commission income

	Three months period ended 30 September		Nine months period ended 30 September	
	2018	2017	2018	2017
	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000
Personal loans	13,404	9,668	40,437	27,309
Mortgage loans	6,135	6,132	19,392	20,743
Credit cards	69,322	65,570	190,386	201,350
Auto loans	4,977	1,398	13,579	9,843
RAK Finance business loans	13,497	12,612	39,776	39,437
Wholesale banking loans	9,794	6,658	32,125	31,324
Business banking loans	38,192	30,039	109,405	89,073
Fiduciary income	7,668	19,011	24,800	45,468
Bancassurance	11,584	12,575	34,683	45,270
Other	11,587	12,119	35,084	37,011
	<u>186,160</u>	<u>175,782</u>	<u>539,667</u>	<u>546,828</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

19. Investment income

	Three months period ended 30 September		Nine months period ended 30 September	
	2018	2017	2018	2017
	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000
Fair value loss	(1,280)	(4,038)	(1,234)	(3,882)
Dividend income	620	286	16,920	3,978
Net gain on disposal of investments	1,548	14,628	9,460	88,264
	<u>888</u>	<u>10,876</u>	<u>25,146</u>	<u>88,360</u>

20. Operating expenses

	Three months period ended 30 September		Nine months period ended 30 September	
	2018	2017	2018	2017
	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000
Staff and outsourced staff costs	229,429	230,520	694,420	690,329
Occupancy costs	25,211	27,035	74,853	76,535
Marketing expenses	6,314	7,036	16,954	20,034
Depreciation and amortisation	26,200	25,112	75,808	76,318
Communication costs	11,832	11,095	34,970	30,166
Legal and consultancy fees	16,298	16,266	47,495	50,250
Computer expenses	26,911	22,319	77,819	63,793
Other	28,246	26,730	90,747	74,594
	<u>370,441</u>	<u>366,113</u>	<u>1,113,066</u>	<u>1,082,019</u>

21. Provision for credit loss, net

(a) Provision for credit loss for the nine months period ended

	30 September	
	2018 (un-audited) AED'000	2017 (un-audited) AED'000
Net impairment charge on loans and advances	1,032,073	1,184,943
Net impairment charge on due from other banks	5,183	-
Net impairment charge on investment securities	13,902	-
Net impairment (release) on insurance contracts	(3,438)	-
Net impairment (release) on commitments and customer acceptances, guarantees and letter of credits	2,115	-
Net impairment charge for the period	<u>1,049,835</u>	<u>1,184,943</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

21. Provision for credit loss, net (continued)

(b) Provision for credit loss for the three months period ended

	30 September	
	2018 (un-audited) AED'000	2017 (un-audited) AED'000
Net impairment charge on loans and advances	347,716	369,331
Net impairment charge on due from other banks	206	-
Net impairment charge on investment securities	10,105	-
Net impairment charge on insurance contracts	878	-
Net impairment charge on commitments and customer acceptances, guarantees and letter of credits	2,174	-
Net impairment charge for the period	361,079	369,331

22. 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 months period ended 30 September		Nine months period ended 30 September	
	2018 (un-audited)	2017 (un-audited)	2018 (un-audited)	2017 (un-audited)
Profit for the period (AED'000) (attributed to owners of the Bank)	238,929	223,454	668,763	602,703
Weighted average number of shares in issue (in thousands)	1,676,245	1,676,245	1,676,245	1,676,245
Basic earnings per share (AED)	0.14	0.13	0.40	0.36

23. Fiduciary activities

The Group holds assets in a fiduciary capacity for its customers without recourse. At 30 September 2018, market value of such assets amounted to AED 2,065 million (31 December 2017: AED 1,963 million) and are excluded from the condensed consolidated financial statements of the Group.

24. Cash and cash equivalents

	30 September	
	2018 (un-audited) AED'000	30 September 2017 (un-audited) AED'000
Cash in hand and current account with UAE Central Bank	1,498,346	636,938
Due from other banks	3,962,437	3,280,028
	5,460,783	3,916,966
Less: Due from other banks with original maturity of three months or more	(3,373,886)	(2,467,401)
	2,086,897	1,449,565

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

25. Operating segments

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

The Group has five main business segments:

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

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 Group'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 2018 to 30 September 2018 (continued)**

25. Operating segments (continued)

The segment information provided to the management for the reportable segments for the periods ended 30 September 2018 and 2017 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 2018 (un-audited)</i>								
Net interest income	968,655	154,889	648,946	48,705	7,307	-	(897)	1,827,605
Net income from Islamic financing net of distribution to depositors	142,727	(8,133)	103,789	(71)	-	-	-	238,312
Transfer pricing (expense)/income	(215,539)	5,646	45,381	164,512	-	-	-	-
Net interest income and income from Islamic financing	895,843	152,402	798,116	213,146	7,307	-	(897)	2,065,917
Non-interest income	396,133	39,116	187,252	104,303	48,806	-	(6,809)	768,801
Operating income	1,291,976	191,518	985,368	317,449	56,113	-	(7,706)	2,834,718
Operating expense excluding depreciation and amortisation	(576,634)	(32,520)	(140,260)	(12,391)	(40,594)	(241,104)	6,245	(1,037,258)
Depreciation and amortisation	(23,802)	(1,207)	(898)	(666)	(2,871)	(43,957)	(2,407)	(75,808)
Total operating expense	(600,436)	(33,727)	(141,158)	(13,057)	(43,465)	(285,061)	3,838	(1,113,066)
Provision for credit loss, net	(536,259)	(23,256)	(479,925)	(13,914)	3,519	-	-	(1,049,835)
Profit for the period	155,281	134,535	364,285	290,478	16,167	(285,061)	(3,868)	671,817
Segment assets	19,345,077	10,968,972	8,368,304	11,673,190	772,540	-	(241,450)	50,886,633
Unallocated assets	-	-	-	-	-	864,579	-	864,579
Total assets	19,345,077	10,968,972	8,368,304	11,673,190	772,540	864,579	(241,450)	51,751,212
Segment liabilities	10,620,677	12,713,432	13,460,835	6,987,733	552,539	-	(85,808)	44,249,408
Unallocated liabilities	-	-	-	-	-	549,410	-	549,410
Total liabilities	10,620,677	12,713,432	13,460,835	6,987,733	552,539	549,410	(85,808)	44,798,818

Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)

25. 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
<i>30 September 2017 (un-audited)</i>								
Net interest income	967,443	84,357	679,500	75,533	4,922	-	-	1,811,755
Income from Islamic financing net of distribution to depositors	121,639	(25)	102,026	-	-	-	-	223,640
Transfer pricing income/(expense)	(174,289)	15,522	(2,789)	161,556	-	-	-	-
Net interest income and net income from Islamic Financing	914,793	99,854	778,737	237,089	4,922	-	-	2,035,395
Non-interest income	426,932	36,558	165,184	161,466	48,166	-	(472)	837,834
Operating income	1,341,725	136,412	943,921	398,555	53,088	-	(472)	2,873,229
Operating expense excluding depreciation and amortisation	(591,280)	(22,497)	(134,512)	(9,734)	(31,621)	(215,029)	(1,028)	(1,005,701)
Depreciation and amortisation	(21,383)	(673)	(928)	(574)	(2,881)	(47,472)	(2,407)	(76,318)
Total operating expense	(612,663)	(23,170)	(135,440)	(10,308)	(34,502)	(262,501)	(3,435)	(1,082,019)
Provision for impairment of loans and advances, net	(528,113)	(57,216)	(599,614)	-	-	-	-	(1,184,943)
Profit for the period	200,949	56,026	208,867	388,247	18,586	(262,501)	(3,907)	606,267
<i>31 December 2017 (audited)</i>								
Segment assets	19,237,425	8,905,676	7,884,657	10,778,747	862,082	-	(324,705)	47,343,882
Unallocated assets	-	-	-	-	-	1,193,276	-	1,193,276
Total assets	19,237,425	8,905,676	7,884,657	10,778,747	862,082	1,193,276	(324,705)	48,537,158
Segment liabilities	10,201,822	11,442,964	12,097,717	5,982,655	609,072	-	(171,470)	40,162,760
Unallocated liabilities	-	-	-	-	-	505,954	-	505,954
Total liabilities	10,201,822	11,442,964	12,097,717	5,982,655	609,072	505,954	(171,470)	40,668,714

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

26. 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	
	2018 (un-audited) AED'000	2017 (un-audited) AED'000
<i>Transactions during the period</i>		
Interest income	4,097	168
Interest expense	31,025	21,682
Commission income	455	3,410
Directors' and key management personnel's remuneration, sitting and other expenses	<u>16,981</u>	<u>10,617</u>
	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
<i>Balances</i>		
<i>Loans and advances:</i>		
- Shareholders and their related companies	257,262	114,881
- Directors and their related companies	8,205	3,271
- Key management personnel	4,725	5,320
	<u>270,192</u>	<u>123,472</u>
<i>Deposits</i>		
- Shareholders and their related companies	2,953,079	2,563,879
- Directors and their related companies	4,392	5,757
- Key management personnel	15,780	11,777
	<u>2,973,251</u>	<u>2,581,413</u>
<i>Irrecoverable commitments and contingent liabilities and forward contracts</i>		
- Shareholders and their related companies	179,900	235,368
- Directors and their related companies	43	43
	<u>179,943</u>	<u>235,411</u>

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

26. Related parties balances (continued)

	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
<i>Insurance related receivables</i>		
Due from policy holders	4,967	13,690
<i>Insurance related payables</i>		
Due to policy holders	99	168

27. Capital adequacy

Capital structure and capital adequacy as per Basel III requirement as at 30 September 2018

The Bank is required to report capital resources and risk-weighted assets under the Basel III from January 2018. Capital structure and capital adequacy as per Basel III requirement as at 30 September 2018 and 31 December 2017 is given below:

	30 September 2018 AED'000	31 December 2017 AED'000
<i>Tier 1 capital</i>		
Ordinary share capital	1,676,245	1,676,245
Legal and other reserves	3,939,837	4,020,612
Retained earnings	592,137	1,278,986
Current year profit	672,590	774,143
Dividend	-	(502,874)
Tier 1 capital base	6,880,809	7,247,112
Tier 2 capital base	466,313	-
Total capital base	7,347,122	7,247,112
<i>Risk weighted assets</i>		
Credit risk	37,305,074	32,733,601
Market risk	136,689	18,056
Operational risk	2,276,146	2,276,146
Total risk weighted assets	39,717,909	35,027,803
Capital adequacy ratio on Tier 1 capital	17.33%	20.69%
Capital adequacy ratio on Tier 2 capital	1.17%	-
Total Capital adequacy ratio	18.50%	20.69%

As per UAE Central Bank Regulation for Basel III, Minimum Capital requirement including Capital Conservation Buffer is 12.375% for year 2018 and 13.0% for year 2019.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

28. 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 2018, 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 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000	30 September 2018 (un-audited) AED'000	31 December 2017 (audited) AED'000
<i>Assets</i>				
Loan and advances	33,370,262	32,442,793	33,231,734	32,240,193
Investment securities	7,100,296	5,568,749	7,228,644	5,568,749
Cash and balances with the UAE Central Bank	4,513,911	4,740,350	4,513,911	4,740,566
Due from other banks	3,902,508	3,786,951	3,937,561	3,799,239
Total financial assets	48,886,977	46,538,843	48,911,850	46,348,747
<i>Liabilities</i>				
Due to other banks	3,033,379	2,771,387	3,013,927	2,764,199
Deposits from customer	34,601,950	32,170,844	34,645,401	32,175,874
Debt securities issued and other borrowing	4,904,133	4,167,772	4,908,448	4,169,302
Total financial liabilities	42,539,462	39,110,003	42,567,776	39,109,375

The movement in provision for credit loss on financial instruments by category are as follows:

	1 January 2018 as restated AED 000	Net charge during the period AED 000	Other movement during the period AED 000	30 September 2018 AED 000
Due from other banks	19,693	5,183	-	24,876
Loans and advances [note 6 (d)]	1,907,646	1,120,257	(1,126,734)	1,901,169
Investment securities	19,960	13,902	-	33,862
Insurance contract assets and receivables	51,945	(3,438)	(360)	48,147
Customer acceptances	1,226	(1,057)	-	169
Financial guarantees and letters of credit	1,643	3,172	-	4,815
Total	2,002,113	1,138,019	(1,127,094)	2,013,038

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

29. 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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

29. 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 September 2018 (un-audited)				
<i>Asset at fair value</i>				
<i>(Through other comprehensive income)</i>				
Investment securities - debt	2,228,074	-	-	2,228,074
Investment securities - equity	220,771	-	2,612	223,383
<i>(Through profit and loss)</i>				
Investment market mutual fund	23,571	-	37,845	61,416
Investment - debt securities	-	-	-	-
<i>(Held at amortised cost)</i>				
Investment securities - debt	4,182,992	-	404,431	4,587,423
Foreign exchange contracts	-	50,686	-	50,686
Derivative financial instruments	-	50,067	-	50,067
	<u>6,655,408</u>	<u>100,753</u>	<u>444,888</u>	<u>7,201,049</u>
<i>Liabilities at fair value</i>				
Foreign exchange contracts	-	63,054	-	63,054
Derivative financial instruments	-	67,960	-	67,960
	<u>-</u>	<u>131,014</u>	<u>-</u>	<u>131,014</u>
31 December 2017				
<i>Asset at fair value</i>				
<i>(Through other comprehensive income)</i>				
Investment securities - debt	5,185,470	-	276,237	5,461,707
Investment securities - equity	61,068	-	1,694	62,762
Investment securities - funds	20,853	-	19,153	40,006
<i>(through profit and loss)</i>				
Investment mutual fund	4,274	-	-	4,274
Foreign exchange contracts	-	13,065	-	13,065
Derivative financial instruments	-	12,475	-	12,475
	<u>5,271,665</u>	<u>25,540</u>	<u>297,084</u>	<u>5,594,289</u>
<i>Liabilities at fair value</i>				
Foreign exchange contracts	-	3,023	-	3,023
Derivative financial instruments	-	20,213	-	20,213
	<u>-</u>	<u>23,236</u>	<u>-</u>	<u>23,236</u>

There is no transfer between levels during the period, hence no level 3 reconciliation needed.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)****30. Critical accounting judgements and key sources of estimation of uncertainty**

In the application of the Group's accounting policies, which are described in Note 3, the management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. Below are the critical judgments and key sources of estimation uncertainty pertaining to the adoption of IFRS 9.

Critical judgments in applying the group's accounting policies introduced on adoption of IFRS 9

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

▪ *Business model assessment*

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

▪ *Significant increase of credit risk*

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information, a significant increase in credit risk is presumed if a customer is more than 30 days past due in making a contractual payment.

▪ *Establishing groups of assets with similar credit risk characteristics*

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics (e.g. instrument type, credit risk grade, collateral type, date of initial recognition, remaining term to maturity, industry, geographic location of the borrower, etc.). The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2018 to 30 September 2018 (continued)**

30. Critical accounting judgements and key sources of estimation of uncertainty (continued)

Critical judgments in applying the group's accounting policies introduced on adoption of IFRS 9 (continued)

▪ *Models and assumptions used*

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

Key sources of estimation uncertainty introduced on adoption of IFRS 9

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- *Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario:* When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- *Probability of default:* PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- *Loss Given Default:* LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

31. Seasonality of results

No income of seasonal nature was recorded in the condensed consolidated financial statements for the nine month periods ended 30 September 2018 and 2017.

32. Approval of the condensed consolidated financial statements

The condensed consolidated financial statements were approved on 22 October 2018.