

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

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

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

<b>Contents</b>	<b><u>Pages</u></b>
<b>Report on review of interim financial information</b>	<b>1</b>
<b>Condensed consolidated statement of financial position</b>	<b>2</b>
<b>Condensed consolidated income statement (un-audited)</b>	<b>3</b>
<b>Condensed consolidated statement of comprehensive income (un-audited)</b>	<b>4</b>
<b>Condensed consolidated statement of changes in equity</b>	<b>5</b>
<b>Condensed consolidated statement of cash flows (un-audited)</b>	<b>6</b>
<b>Notes to the condensed consolidated financial statements</b>	<b>7- 35</b>

## 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 June 2016 and the related condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended. Management of the Group is responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 - *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on this interim financial information based on our review.

### *Scope of review*

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

### *Conclusion*

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

### *Other matters*

The consolidated financial statements of the Group for the year ended 31 December 2015 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on 2 February 2016. Further, the interim financial information of the Group for the period from 1 January 2015 to 30 June 2015 were reviewed by another auditor who expressed an unmodified conclusion on those interim financial information on 27 July 2015.

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



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

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

	Notes	30 June 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<b>ASSETS</b>			
Cash and balances with UAE Central Bank	4	4,643,939	4,908,196
Due from other banks	5	1,872,141	1,906,813
Loans and advances, net	6	28,302,673	27,798,096
Investment securities	7	4,133,591	4,115,072
Insurance contract assets and receivables		426,189	325,493
Other assets	8	451,978	424,585
Goodwill and other intangible assets		175,745	177,349
Property and equipment		891,759	897,450
<b>Total assets</b>		<b>40,898,015</b>	<b>40,553,054</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Liabilities</b>			
Due to other banks	9	1,459,038	1,056,141
Deposits from customers	10	28,003,903	27,820,105
Debt security in issue	11	2,789,672	2,864,727
Insurance contract liabilities and payables		509,268	389,783
Other liabilities	12	670,227	704,850
<b>Total liabilities</b>		<b>33,432,108</b>	<b>32,835,606</b>
<b>Equity</b>			
Share capital	13	1,676,245	1,676,245
Share premium		110,350	110,350
Retained earnings		1,707,052	2,102,951
Other reserves		3,932,248	3,789,706
<b>Equity attributable to owners of the Parent</b>		<b>7,425,895</b>	<b>7,679,252</b>
Non-controlling interests		40,012	38,196
<b>Total equity</b>		<b>7,465,907</b>	<b>7,717,448</b>
<b>Total liabilities and equity</b>		<b>40,898,015</b>	<b>40,553,054</b>

.....  
Peter William England  
Chief Executive Officer

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

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

	Notes	Three months period ended 30 June		Six months period ended 30 June	
		2016 (un-audited) AED'000	2015 (un-audited) AED'000	2016 (un-audited) AED'000	2015 (un-audited) AED'000
Interest income	16	687,290	714,071	1,403,511	1,418,983
Interest expense	16	(67,021)	(55,165)	(131,333)	(106,472)
<b>Net interest income</b>		<b>620,269</b>	<b>658,906</b>	<b>1,272,178</b>	<b>1,312,511</b>
Income from Islamic financing	17	95,832	99,180	198,681	187,528
Distribution to depositors	17	(8,703)	(7,496)	(19,162)	(15,919)
<b>Net income from Islamic financing</b>		<b>87,129</b>	<b>91,684</b>	<b>179,519</b>	<b>171,609</b>
<b>Net interest income and net income from Islamic financing</b>		<b>707,398</b>	<b>750,590</b>	<b>1,451,697</b>	<b>1,484,120</b>
Net fees and commission income	18	169,451	172,929	338,310	339,502
Foreign exchange & derivative income		27,098	25,714	50,093	47,685
Gross insurance underwriting profit		6,620	3,033	18,747	3,033
Investment income	19	50,807	300	78,894	577
Other operating income		16,276	20,955	29,910	30,921
<b>Non-interest income</b>		<b>270,252</b>	<b>222,931</b>	<b>515,954</b>	<b>421,718</b>
<b>Operating income</b>		<b>977,650</b>	<b>973,521</b>	<b>1,967,651</b>	<b>1,905,838</b>
Operating expenses	20	(345,072)	(385,662)	(686,781)	(762,703)
<b>Operating profit before provision for impairment</b>		<b>632,578</b>	<b>587,859</b>	<b>1,280,870</b>	<b>1,143,135</b>
Provision for impairment of loans and advances, net	6(d),(e)	(437,119)	(233,884)	(835,399)	(426,960)
<b>Profit for the period</b>		<b>195,459</b>	<b>353,975</b>	<b>445,471</b>	<b>716,175</b>
<i>Attributed to:</i>					
Owners of the Parent		195,704	353,922	444,674	716,122
Non-controlling interests		(245)	53	797	53
<b>Profit for the period</b>		<b>195,459</b>	<b>353,975</b>	<b>445,471</b>	<b>716,175</b>
<i>Earnings per share:</i>					
Basic and diluted in AED	21	0.12	0.21	0.27	0.43

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

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

	Three months period ended 30 June		Six months period ended 30 June	
	2016 (un-audited) AED'000	2015 (un-audited) AED'000	2016 (un-audited) AED'000	2015 (un-audited) AED'000
Profit for the period	195,459	353,975	445,471	716,175
<b><i>Other comprehensive income</i></b>				
<i>Items that will be reclassified subsequently to profit or loss</i>				
Net changes in fair value of available-for- sale investment securities	132,299	(4,384)	144,012	(6,342)
<b>Other comprehensive income for the period</b>	<b>132,299</b>	<b>(4,384)</b>	<b>144,012</b>	<b>(6,342)</b>
<b>Total comprehensive income for the period</b>	<b>327,758</b>	<b>349,591</b>	<b>589,483</b>	<b>709,833</b>
<b><i>Attributed to:</i></b>				
Owners of the Parent	328,104	350,330	586,234	710,572
Non-controlling interests	(346)	(739)	3,249	(739)
<b>Total comprehensive income for the period</b>	<b>327,758</b>	<b>349,591</b>	<b>589,483</b>	<b>709,833</b>

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

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

	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Equity attributable to owners of the Parent AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 31 December 2014 (audited)	1,676,245	110,350	1,784,065	3,560,461	7,131,121	-	7,131,121
Profit for the period	-	-	716,122	-	716,122	53	716,175
Other comprehensive income	-	-	-	(5,550)	(5,550)	(792)	(6,342)
Total comprehensive income for the period	-	-	716,122	(5,550)	710,572	(739)	709,833
Treasury stock elimination	-	-	-	(2,398)	(2,398)	-	(2,398)
Non-controlling interest on RAKNIC acquisition	-	-	-	-	-	36,178	36,178
Dividend paid to equity holders of the Bank	-	-	(838,123)	-	(838,123)	-	(838,123)
Zakat	-	-	(378)	-	(378)	-	(378)
Balance at 30 June 2015 (un-audited)	1,676,245	110,350	1,661,686	3,552,513	7,000,794	35,439	7,036,233
Balance at 31 December 2015 (audited)	1,676,245	110,350	2,102,951	3,789,706	7,679,252	38,196	7,717,448
Profit for the period	-	-	444,674	-	444,674	797	445,471
Other comprehensive income	-	-	-	141,560	141,560	2,452	144,012
Total comprehensive income for the period	-	-	444,674	141,560	586,234	3,249	589,483
Dividend paid to equity holders of the Bank	-	-	(838,000)	-	(838,000)	(1,142)	(839,142)
Zakat	-	-	(482)	-	(482)	-	(482)
Transfer to legal reserve	-	-	(491)	491	-	-	-
Transfer to voluntary reserve	-	-	(491)	491	-	-	-
Other	-	-	(1,109)	-	(1,109)	(291)	(1,400)
At 30 June 2016 (un-audited)	1,676,245	110,350	1,707,052	3,932,248	7,425,895	40,012	7,465,907

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

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

	Six months period ended 30 June	
	2016 (un-audited) AED'000	2015 (un-audited) AED'000
<b><i>Cash flows from operating activities</i></b>		
Profit for the period	445,471	716,175
<b>Adjustments:</b>		
Provision for impairment of loans and advances, net	835,399	451,182
Depreciation of property and equipment	55,232	60,836
Amortisation of intangible assets	1,604	267
Gain on disposal of property and equipment	(253)	(53)
Amortisation of premium/discount relating to investments securities	7,342	8,760
Gain on sale of available-for-sale investment securities	(76,820)	-
(Gain)/loss on held for trading investment securities	(337)	55
	<b>1,267,638</b>	<b>1,237,222</b>
<b>Changes in operating assets and liabilities</b>		
Increase in deposits with the UAE Central Bank	(99,272)	(272,095)
(Increase)/decrease in due from other banks with original maturities of three months or over	(560,100)	4,796
Increase in loans and advances, net	(1,339,976)	(2,254,094)
Increase in insurance contract assets and receivables	(100,696)	(19,745)
Goodwill and intangibles	-	267
Decrease/(increase) in other assets	22,066	(72,666)
Increase in due to other banks	402,897	241,402
Increase in deposits from customers	183,798	1,405,114
Increase/(decrease) in insurance contract liabilities and payables	119,485	(41,430)
(Decrease)/increase in other liabilities	(34,623)	173,629
	<b>(138,783)</b>	<b>402,400</b>
<b><i>Cash flows from investing activities</i></b>		
Purchase of investment securities	(1,023,427)	(441,173)
Purchase of property and equipment	(50,878)	(30,431)
Investment in RAKNIC, net	-	(203,956)
Proceeds from maturity/disposal of investments	1,218,736	83,431
Proceeds from disposal of property and equipment	1,590	315
	<b>146,021</b>	<b>(591,814)</b>
<b><i>Cash flows from financing activities</i></b>		
Dividends paid	(839,142)	(838,123)
Zakat paid	(482)	(378)
Directors' remuneration	(1,400)	-
Purchase of/issue of debt security	(124,514)	1,119,537
	<b>(965,538)</b>	<b>281,036</b>
<b>Net cash (used in)/generated from financing activities</b>		
	<b>(958,300)</b>	<b>91,622</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		
	<b>2,439,849</b>	<b>1,002,191</b>
<b>Cash and cash equivalents, beginning of the period</b>		
	<b>1,481,549</b>	<b>1,093,813</b>
<b>Cash and cash equivalents, end of the period (Note 23)</b>		

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



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

**1. Incorporation and principal activities**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

<u>New and revised IFRS</u>	<u>Effective for annual periods beginning on or after</u>
<p>A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas:</p>	
<ul style="list-style-type: none"> <li>• <b>Classification and measurement:</b> Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a 'fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk.</li> <li>• <b>Impairment:</b> The 2014 version of IFRS 9 introduces an 'expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised.</li> <li>• <b>Hedge accounting:</b> Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures.</li> <li>• <b>Derecognition:</b> The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39.</li> </ul>	
• Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9.	When IFRS 9 is first applied
• IFRS 7 Financial Instruments: Disclosures relating to the additional hedge accounting disclosures (and consequential amendments) resulting from the introduction of the hedge accounting chapter in IFRS 9.	When IFRS 9 is first applied
• IFRS 15 <i>Revenue from Contracts with Customers</i> : IFRS 15 provides a single, principles based five-step model to be applied to all contracts with customers.	1 January 2018
• IFRS 16 <i>Leases</i> provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value	1 January 2019

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

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

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

**New and revised IFRS**

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

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>• Amendments to IFRS 10 <i>Consolidated Financial Statements</i> and IAS 28 <i>Investments in Associates and Joint Ventures</i> (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture</li> </ul> | <p>Effective date<br/>deferred indefinitely</p> |
|--|---|

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

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

**3. Significant accounting policies**

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

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

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

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

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

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

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

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

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

***(b) Consolidation***

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

*i) Subsidiaries*

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

*ii) Transactions eliminated on consolidation*

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

*iii) Acquisition accounting*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

If the amount of impairment subsequently decreases due to an event occurring after the write down, the release of the provision is credited to the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Group's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

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

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

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

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

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

***(d) Islamic financing***

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

***i) Murabaha financing***

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

***ii) Salam***

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

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

***iii) Mudaraba***

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

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

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

**(d) Islamic financing (continued)**

*iv) Wakala*

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

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

*v) Ijara*

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

**(e) Investment securities**

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

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

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

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

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

Financial assets, except assets that are held for trading are initially recognised at fair value plus transaction costs. For financial assets acquired for trading, transaction costs are charged to profit and loss. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or where the Group has transferred substantially all risks and rewards of ownership.



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

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

***(e) Investment securities (continued)***

Available-for-sale financial assets are subsequently carried at fair value. Held-to-maturity investments are carried at amortised cost using the effective interest method.

Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognised directly in consolidated statement of comprehensive income, until the financial asset is derecognised or impaired. At this time, the cumulative gain or loss previously recognised through the consolidated statement of comprehensive income is recognised in the income statement.

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

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

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

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

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

***(f) Cash and cash equivalents***

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

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

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

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Cash in hand	715,753	802,647
Balances with the UAE Central Bank	1,200	277,835
Statutory deposit with the UAE Central Bank	3,026,986	2,827,714
Certificates of deposit with the UAE Central Bank	900,000	1,000,000
	<u>4,643,939</u>	<u>4,908,196</u>

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

**5. Due from other banks**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Placements with other banks	536,686	999,523
Demand deposits	219,656	495,858
Banker's acceptances	882,364	408,567
Clearing account balances	59,307	2,865
Other	174,128	-
	<u>1,872,141</u>	<u>1,906,813</u>

The below represents deposits and balances due from:

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Banks in UAE	654,241	1,042,530
Banks outside UAE	1,217,900	864,283
	<u>1,872,141</u>	<u>1,906,813</u>

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

**6. Loans and advances, net**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<b>(a) Loans and advances</b>		
Retail banking loans	17,951,528	18,129,609
Wholesale Banking loans	4,018,237	2,429,414
Business banking loans	7,256,310	7,983,673
	<hr/>	<hr/>
Total loans and advances [Note 6(b)]	29,226,075	28,542,696
Provision for impairment [Note 6(c)]	(923,402)	(744,600)
	<hr/>	<hr/>
<b>Net loans and advances</b>	<b>28,302,673</b>	<b>27,798,096</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>(b) Analysis of loans and advances</b>		
Personal loans	6,034,662	6,361,103
Mortgage loans	4,230,731	4,098,837
Credit cards	3,466,041	3,379,655
Auto loans	2,937,669	3,158,750
Business banking RAK finance loans	5,420,804	6,221,087
Business banking other loans	1,835,506	1,762,586
Wholesale banking loans	4,018,237	2,429,414
Other retail loans	1,282,425	1,131,264
	<hr/>	<hr/>
<b>Total loans and advances</b>	<b>29,226,075</b>	<b>28,542,696</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>(c) Provision for impairment</b>		
Balance at the beginning of the period/year	744,600	539,227
Impairment allowance for the period/year	866,989	1,108,461
Written-off during the period/year	(688,187)	(903,088)
	<hr/>	<hr/>
<b>Balance at the end of the period/year</b>	<b>923,402</b>	<b>744,600</b>
	<hr/> <hr/>	<hr/> <hr/>

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

6. Loans and advances, net (continued)

	30 June 2016 (un-audited) AED'000	30 June 2015 (un-audited) AED'000
<i>(d) Provision for impairments/(release) on loans and advances net of recovery - for six months period ended</i>		
Impairment allowance for the period	866,989	451,182
Net recovery during the period	(31,590)	(24,222)
<b>Net impairment allowance the period</b>	<b>835,399</b>	<b>426,960</b>
<i>(e) Provision for impairments/(release) on loans and advances net of recovery - for three months period ended</i>		
Impairment allowance for the period	452,945	248,137
Net recovery during the period	(15,826)	(14,253)
<b>Net impairment allowance the period</b>	<b>437,119</b>	<b>233,884</b>

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

	30 June 2016 (un-audited) AED'000	31 December 2015 (audited) AED'000
<i>(f) Impairment loans and advances provision coverage</i>		
Aggregate impaired loans	1,080,994	914,368
Provision held	923,402	744,600
Coverage ratio	85.42%	81.43%

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

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

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

*(g) Islamic financing assets*

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

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>i) Islamic financing assets</i>		
Islamic business banking assets	871,758	1,025,971
Islamic wholesale banking assets	102,674	73,252
Islamic retail financing assets	3,413,069	3,433,666
	<hr/>	<hr/>
Total Islamic financing assets	4,387,501	4,532,889
Provision for impairment	(153,559)	(120,849)
	<hr/>	<hr/>
	<b>4,233,942</b>	<b>4,412,040</b>
	<hr/> <hr/>	<hr/> <hr/>
<i>ii) Analysis of Islamic financing assets</i>		
Islamic Salam Personal finance	1,641,658	1,733,838
Islamic Auto Murabaha	1,061,089	1,156,072
Islamic Business banking Finance	871,758	1,025,971
Islamic Ijara Property Finance	555,167	381,486
Islamic Credit Cards	154,119	161,531
Islamic wholesale banking	102,674	73,252
Islamic finance – other	1,036	739
	<hr/>	<hr/>
	<b>4,387,501</b>	<b>4,532,889</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>7. Investment securities</b>		
	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>Securities available-for-sale</i>		
Quoted equity securities	35,039	41,784
Unquoted equity securities	107	107
Quoted debt securities*	4,068,629	74,746
	<hr/>	<hr/>
	<b>4,103,775</b>	<b>116,637</b>
	<hr/>	<hr/>
<i>Securities held-for-trading</i>		
Quoted debt securities fair valued through profit and loss	25,777	-
Quoted mutual funds fair valued through profit and loss	4,039	3,966
	<hr/>	<hr/>
	<b>29,816</b>	<b>3,966</b>
	<hr/>	<hr/>

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

**7. Investment securities (continued)**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>Securities held-to-maturity</i>		
Unquoted debt securities	-	220,380
Quoted debt securities	-	3,774,089
	<hr/>	<hr/>
	-	3,994,469
	<hr/>	<hr/>
<b>Total investment securities</b>	<b>4,133,591</b>	<b>4,115,072</b>

\*As at 30 June 2016, quoted debt securities with book value of AED 369 million (31 December 2015: AED 658 million) have been given as collateral against repo borrowings of AED 296 million (31 December 2015: AED 591 million) (Note 9).

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

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

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Federal and local Government - UAE	617,976	702,109
Government related entity - UAE	930,240	1,034,464
Government – GCC	310,348	74,800
Government related entity - GCC	164,381	87,478
Government – other	30,544	-
Banks and financial institutions - UAE	684,608	590,819
Banks and financial institutions - GCC	92,286	22,016
Banks and financial institutions - other	920,997	1,044,733
Public limited companies – UAE	153,858	185,090
Public limited companies – GCC	36,658	-
Public limited companies - other	152,510	327,706
	<hr/>	<hr/>
<b>Total debt securities</b>	<b>4,094,406</b>	<b>4,069,215</b>
Quoted equity securities	35,039	41,784
Quoted mutual funds	4,039	3,966
Unquoted equity securities	107	107
	<hr/>	<hr/>
<b>Total investment securities</b>	<b>4,133,591</b>	<b>4,115,072</b>

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

**8. Other assets**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Interest receivable	199,153	215,424
Profit receivable on Islamic financing assets	35,847	43,055
Prepayments and deposits	83,980	79,570
Interest rate swaps	71,409	22,625
Other	61,589	63,911
	<u>451,978</u>	<u>424,585</u>

Other includes real estate acquired in 2015 with a carrying value of AED 5 million on settlement of a loan given to a wholesale banking customer. As per UAE Central Bank regulation, the Group can hold the real estate for a maximum period of three years and can extend the holding after obtaining Central Bank approval. The Group can also rent the property and earn rental income. Fair valuation of the property was carried out by an independent valuer having an appropriate professional qualification and was based on recent experience in the location and category of the property being valued.

**9. Due to other banks**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Term borrowings	1,125,078	462,942
Repurchase agreements (Note 7)	296,293	591,403
Demand deposits	37,667	1,796
	<u>1,459,038</u>	<u>1,056,141</u>

**10. Deposits from customers**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Time deposits	7,941,115	7,723,523
Current accounts	14,955,085	15,057,746
Saving deposits	3,781,483	3,740,321
Call deposits	1,326,220	1,298,515
	<u>28,003,903</u>	<u>27,820,105</u>

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

**10. Deposits from customers (continued)**

Time deposits include AED 461 million (2015: AED 484 million) held by the Group as cash collateral for loans and advances granted to customers.

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

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Wakala deposits	1,345,875	1,728,368
Mudaraba term investment deposits	65,517	36,928
Qard-E-Hassan - current accounts	490,674	521,847
Mudaraba - current accounts	1,000,662	1,030,169
Mudaraba - saving accounts	139,442	142,794
Mudaraba - call deposits	32,267	30,633
	<u>3,074,437</u>	<u>3,490,739</u>

**11. Debt security in issue**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
USD 500 million medium term note issued at discount in June 2014	1,828,296	1,826,768
USD 300 million medium term note issued at premium in March 2015	1,108,742	1,110,252
Less: Own investment in debt security issued	(210,469)	(84,053)
Less: Debt security issue costs	(8,981)	(10,865)
Fair value adjustment on hedged debt security in issue	72,084	22,625
	<u>2,789,672</u>	<u>2,864,727</u>

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



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

**12. Other liabilities**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Interest payable	36,385	34,332
Profit distributable on Islamic deposits	19,860	22,535
Accrued expenses	114,230	195,275
Managers cheques issued	135,006	119,380
Provision for employees' end-of-service benefits	94,861	96,051
Other	269,885	237,277
	<u>670,227</u>	<u>704,850</u>

**13. Share capital and dividend**

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

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

**14. Contingencies and commitments**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
Irrevocable commitments to extend credit	53,190	37,646
Letters of guarantee	818,363	723,420
Letters of credit	98,676	76,847
Capital commitments and other	73,771	53,337
	<u>1,044,000</u>	<u>891,250</u>

Commitments to extend credit shown above represent unfunded amounts out of approved limits offered to customers, which are irrevocable by the Group. Commitments to extend credit amounting to AED 8,746 million (31 December 2015: AED 8,618 million) are revocable at the option of the Group and not included in the above table.

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

**15. Forward foreign exchange and interest rate swap contracts**

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

Outstanding forward foreign exchange transactions at 30 June 2016 and 31 December 2015 are as follows:

	<b>Contract Amount AED'000</b>	<b>Fair value AED'000</b>
<b>30 June 2016</b>	<b>915,076</b>	<b>115</b>
31 December 2015	745,446	235

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

Outstanding interest rate swap transactions at 30 June 2016 and 31 December 2015 are as follows:

	<b>Contract Amount AED'000</b>	<b>Fair value AED'000</b>
<b>30 June 2016</b>	<b>2,795,917</b>	<b>71,409</b>
31 December 2015	2,850,248	23,258

**16. Interest income and expense**

	<b>Three months period ended 30 June</b>		<b>Six months period ended 30 June</b>	
	<b>2016 (un-audited) AED'000</b>	<b>2015 (un-audited) AED'000</b>	<b>2016 (un-audited) AED'000</b>	<b>2015 (un-audited) AED'000</b>
<b><i>Interest income</i></b>				
Personal loans	84,692	96,834	173,330	197,569
Mortgage loans	40,392	44,616	79,861	89,481
Credit cards	186,622	165,945	377,831	328,443
Auto loans	33,169	37,301	68,166	74,205
RAK Finance Business Loans	194,866	247,034	412,323	491,239
Wholesale banking loans	35,126	20,524	64,934	38,901
Business Banking Loans	52,439	40,059	105,923	78,032
Other retail banking loans	8,779	17,426	18,457	33,764
Investment securities	43,601	42,594	88,808	84,171
Deposits with the U.A.E. Central Bank	993	1,020	2,011	2,020
Other banks	6,611	718	11,867	1,158
	<b>687,290</b>	<b>714,071</b>	<b>1,403,511</b>	<b>1,418,983</b>

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

**16. Interest income and expense (continued)**

	Three months period ended 30 June		Six months period ended 30 June	
	2016 (un-audited) AED'000	2015 (un-audited) AED'000	2016 (un-audited) AED'000	2015 (un-audited) AED'000
<i>Interest expense</i>				
Due to customers	48,697	41,546	94,837	82,584
Debt securities issued	15,062	12,984	30,405	22,610
Borrowings from other banks	3,262	635	6,091	1,278
	<u>67,021</u>	<u>55,165</u>	<u>131,333</u>	<u>106,472</u>

**17. Income from Islamic Financing and distribution to depositors**

	Three months period ended 30 June		Six months period ended 30 June	
	2016 (un-audited) AED'000	2015 (un-audited) AED'000	2016 (un-audited) AED'000	2015 (un-audited) AED'000
Islamic Salam personal finance	32,133	35,287	66,069	69,264
Islamic Auto Murabaha	18,692	19,606	38,922	36,790
Islamic business finance	38,543	41,622	82,095	77,108
Islamic asset based finance	1,558	455	2,939	486
Islamic property finance	4,906	2,210	8,656	3,880
	<u>95,832</u>	<u>99,180</u>	<u>198,681</u>	<u>187,528</u>
Distribution of profit on Islamic term investment deposits	(6,851)	(6,222)	(15,428)	(13,745)
Distribution of profit on Islamic demand deposits	(1,852)	(1,274)	(3,734)	(2,174)
	<u>(8,703)</u>	<u>(7,496)</u>	<u>(19,162)</u>	<u>(15,919)</u>

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

**18. Net fees and commission income**

	Three months period ended 30 June		Six months period ended 30 June	
	2016	2015	2016	2015
	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000
Personal loans	6,029	7,559	12,194	14,405
Mortgage loans	6,889	8,417	14,015	16,419
Credit cards	71,671	58,147	141,533	116,247
Auto loans	4,659	4,895	12,228	9,560
RAK Finance business loans	6,686	17,093	13,720	36,536
Wholesale banking loans	15,051	3,276	21,651	6,089
Business banking loans	19,855	16,602	39,162	33,118
Fiduciary income	13,241	25,692	27,653	46,253
Bancassurance	10,694	16,588	25,572	31,484
Other	14,676	14,660	30,582	29,391
	<u>169,451</u>	<u>172,929</u>	<u>338,310</u>	<u>339,502</u>

**19. Investment income**

	Three months period ended 30 June		Six months period ended 30 June	
	2016	2015	2016	2015
	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000
Fair value income	318	(55)	337	(55)
Dividend income	451	355	1,737	632
Net gain on disposal of available-for-sale investment	50,038	-	76,820	-
	<u>50,807</u>	<u>300</u>	<u>78,894</u>	<u>577</u>

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

**20. Operating expenses**

	Three months period ended 30 June		Six months period ended 30 June	
	2016	2015	2016	2015
	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000	(un-audited) AED'000
Staff costs	144,486	164,968	279,830	329,113
Occupancy costs	24,476	23,514	49,468	45,938
Marketing expenses	8,410	10,092	16,600	20,092
Depreciation and amortisation	28,191	30,566	56,836	61,103
Communication costs	9,939	9,489	19,436	17,558
Legal and consultancy fees	10,561	12,286	19,403	24,410
Computer expenses	19,210	21,559	41,265	40,854
Outsourced staff costs	81,851	91,879	167,585	185,743
Other	17,948	21,309	36,358	37,892
	<u>345,072</u>	<u>385,662</u>	<u>686,781</u>	<u>762,703</u>

**21. Earnings per share**

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

	30 June 2016 (un-audited)	30 June 2015 (un-audited)
Profit for the period (AED'000) (attributed to owners of the Parent)	<u>444,674</u>	<u>716,122</u>
Weighted average number of shares in issue (in thousands)	<u>1,676,245</u>	<u>1,676,245</u>
Basic earnings per share (AED)	<u>0.27</u>	<u>0.43</u>

**22. Fiduciary activities**

The Group holds assets in a fiduciary capacity for its customers without recourse. At 30 June 2016, such assets amounted to AED 1,824 million (31 December 2015: AED 1,786 million) and are excluded from the condensed consolidated financial statements of the Group.

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

**23. Cash and cash equivalents**

	<b>30 June 2016 (un-audited) AED'000</b>	30 June 2015 (un-audited) AED'000
Cash in hand and current account with UAE Central Bank	716,953	657,265
Due from other banks	1,872,141	536,756
	<u>2,589,094</u>	<u>1,194,021</u>
Less: Due from other banks with original maturity of three months or more	(1,107,545)	(100,208)
	<u><u>1,481,549</u></u>	<u><u>1,093,813</u></u>

**24. Operating segments**

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

The Group has five main business segments:

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

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

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

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

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

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

24. Operating segments (continued)

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

	Retail Banking AED'000	Wholesale Banking AED'000	Business Banking AED'000	Treasury and other AED'000	Insurance business AED'000	Unallocated cost AED'000	Consolidation elimination AED'000	Total AED'000
<i>30 June 2016 (un-audited)</i>								
Net external interest income	669,449	58,118	493,090	49,488	2,033	-	-	1,272,178
Income from Islamic financing net of distribution to depositors	96,032	2,939	80,548	-	-	-	-	179,519
Transfer pricing income/expense	(28,007)	(3,288)	7,556	23,739	-	-	-	-
<b>Net interest/income from Islamic financing</b>	737,474	57,769	581,194	73,227	2,033	-	-	1,451,697
Non-interest income	291,709	24,769	69,168	109,694	26,181	-	(5,567)	515,954
<b>Operating income</b>	1,029,183	82,538	650,362	182,921	28,214	-	(5,567)	1,967,651
Operating expense excluding depreciation and amortisation	(409,837)	(17,444)	(68,858)	(4,988)	(23,228)	(111,157)	5,567	(629,945)
Depreciation and amortisation	(15,785)	(555)	(433)	(118)	(2,878)	(37,067)	-	(56,836)
<b>Total operating expense</b>	(425,622)	(17,999)	(69,291)	(5,106)	(26,106)	(148,224)	5,567	(686,781)
Impairment charge, net	(394,297)	(44,238)	(396,864)	-	-	-	-	(835,399)
<b>Net profit/(loss)</b>	209,264	20,301	184,207	177,815	2,108	(148,224)	-	445,471
Segment assets	18,264,622	5,012,724	7,030,739	9,056,518	630,413	-	(41,019)	39,953,997
Unallocated assets	-	-	-	-	-	944,018	-	944,018
<b>Total assets</b>	18,264,622	5,012,724	7,030,739	9,056,518	630,413	944,018	(41,019)	40,898,015
Segment liabilities	14,458,173	3,836,803	9,630,684	4,587,421	581,650	-	(41,019)	33,053,712
Unallocated liabilities	-	-	-	-	-	378,396	-	378,396
<b>Total liabilities</b>	14,458,173	3,836,803	9,630,684	4,587,421	581,650	378,396	(41,019)	33,432,108

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

## 24. Operating segments (continued)

	Retail Banking AED'000	Wholesale banking AED'000	Business banking AED'000	Treasury and other AED'000	Insurance business AED'000	Unallocated cost AED'000	Consolidation elimination AED'000	Total AED'000
<i>30 June 2015 (un-audited)</i>								
Net external interest income	677,142	32,388	545,533	57,147	301	-	-	1,312,511
Income from Islamic financing net of distribution to depositors	95,060	485	76,064	-	-	-	-	171,609
Net transfer pricing income/(expense)	(19,174)	1,473	2,288	15,413	-	-	-	-
Net interest/income from Islamic financing	753,028	34,346	623,885	72,560	301	-	-	1,484,120
Non-interest income	299,085	8,692	80,668	30,235	3,038	-	-	421,718
Operating income	1,052,113	43,038	704,553	102,795	3,339	-	-	1,905,838
Operating expense excluding depreciation	(463,548)	(13,416)	(83,930)	(3,294)	(2,968)	(134,444)	-	(701,600)
Depreciation	(19,972)	(456)	(750)	(44)	(380)	(39,501)	-	(61,103)
Total operating expense	(483,520)	(13,872)	(84,680)	(3,338)	(3,348)	(173,945)	-	(762,703)
Impairment charge net of (write off)/recovery	(273,562)	(3,385)	(150,013)	-	-	-	-	(426,960)
Net profit/(loss)	295,031	25,781	469,860	99,457	(9)	(173,945)	-	716,175
Segment assets as at 31 December 2015 (audited)	18,594,936	2,809,313	7,832,229	9,874,195	525,519	-	(69,616)	39,566,576
Unallocated assets	-	-	-	-	-	986,478	-	986,478
Total assets	18,594,936	2,809,313	7,832,229	9,874,195	525,519	986,478	(69,616)	40,553,054
Segment liabilities	15,523,854	2,634,077	9,294,975	4,528,641	483,895	-	(69,616)	32,395,826
Unallocated liabilities	-	-	-	-	-	439,780	-	439,780
Total liabilities	15,523,854	2,634,077	9,294,975	4,528,641	483,895	439,780	(69,616)	32,835,606



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

**25. Related parties balances**

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

	<b>Six months period ended 30 June 2016 (un-audited) AED'000</b>	<b>Six months period ended 30 June 2015 (un-audited) AED'000</b>
<i>Transactions during the period</i>		
Interest income	163	108
Interest expense	3,634	3,290
Commission income	22	401
Directors' remuneration, sitting fees and other expenses	3,541	4,095
Remuneration payable to key management personnel	5,319	4,442
	<u>30 June 2016 (un-audited) AED'000</u>	<u>31 December 2015 (audited) AED'000</u>
<i>Balances</i>		
<i>Loans and advances:</i>		
- Shareholders and their related companies	171	129
- Directors and their related companies	139	131
- Key management personnel	8,436	5,050
	<u>8,746</u>	<u>5,310</u>
<i>Deposits</i>		
- Shareholders and their related companies	1,987,871	1,683,511
- Directors and their related companies	14,598	12,945
- Key management personnel	10,198	9,540
	<u>2,012,667</u>	<u>1,705,996</u>
<i>Irrecoverable commitments and contingent liabilities and forward contracts</i>		
- Shareholders and their related companies	121,823	140,179
- Directors and their related companies	403	423
	<u>122,226</u>	<u>140,602</u>

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

**25. Related parties balances (continued)**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>Insurance related receivables</i>		
Due from policy holders	22,012	19,312
<i>Insurance related payables</i>		
Due to policy holders	1,570	614

**26. Capital adequacy**

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

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

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>Tier 1 capital</i>		
Ordinary share capital	1,676,245	1,676,245
Share premium	110,350	110,350
Statutory and other reserves	3,936,415	3,803,228
Retained earnings	1,246,414	1,264,828
<b>Total</b>	<b>6,969,424</b>	<b>6,854,651</b>
<i>Deduction</i>		
Investment in RAKNIC	(312,886)	(317,244)
<b>Tier 1 Capital</b>	<b>6,656,538</b>	<b>6,537,407</b>
<b>Tier 2 capital</b>	<b>-</b>	<b>-</b>
<b>Total regulatory capital</b>	<b>6,656,538</b>	<b>6,537,407</b>

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

**26. Capital adequacy (continued)**

	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>Risk weighted assets</i>		
Credit risk	25,821,899	25,084,932
Market risk	20,635	8,547
Operational risk	1,735,802	1,735,802
<b>Total risk weighted assets</b>	<b>27,578,336</b>	<b>26,829,281</b>
Capital adequacy ratio on regulatory capital	24.14%	24.37%
Capital adequacy ratio on Tier 1 capital	24.14%	24.37%

The above ratios are computed without considering current year profit.

**27. Fair values of financial assets and liabilities**

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 30 June 2016, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial assets and liabilities:

	<b>Fair value</b>		<b>Carrying value</b>	
	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>	<b>30 June 2016 (un-audited) AED'000</b>	<b>31 December 2015 (audited) AED'000</b>
<i>Assets</i>				
Loan and advances	28,469,013	28,005,631	28,302,673	27,798,096
Investment securities	4,121,091	4,193,318	4,133,591	4,115,072
Cash and balances with the UAE Central Bank	4,645,734	4,911,482	4,643,939	4,908,196
Due from other banks	1,873,849	1,907,656	1,872,141	1,906,813
	<b>39,109,687</b>	<b>39,018,087</b>	<b>38,952,344</b>	<b>38,728,177</b>
<i>Liabilities</i>				
Due to banks	1,460,934	1,057,492	1,459,038	1,056,141
Due to customer	28,025,599	27,883,754	28,003,903	27,820,105
Debt securities issued	2,789,672	2,864,727	2,789,672	2,864,727
<b>Total financial liabilities</b>	<b>32,276,205</b>	<b>31,805,973</b>	<b>32,252,613</b>	<b>31,740,973</b>

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

**28. Fair value hierarchy**

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

**Quoted market prices - Level 1**

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

**Valuation techniques using observable inputs - Level 2**

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

**Valuation techniques using significant unobservable inputs - Level 3**

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

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

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

	<b>Quoted market prices Level 1 AED'000</b>	<b>Observable inputs Level 2 AED'000</b>	<b>Significant unobservable inputs Level 3 AED'000</b>	<b>Total AED'000</b>
<i>30 June 2016 (un-audited)</i>				
<i>Asset at fair value</i>				
<i>(Available-for-sale financial assets)</i>				
Investment securities - debt	3,847,581	-	221,048	4,068,629
Investment securities - equity	22,539	-	107	22,646
Foreign exchange contracts		115	-	115
Derivative financial instruments		71,409	-	71,409
<i>Held-for-trading</i>				
Investment market fund	4,039	-	-	4,039
Investment – debt securities	25,777	-	-	25,777
	3,899,936	71,524	221,155	4,192,615
	3,899,936	71,524	221,155	4,192,615

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

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

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
<i>31 December 2015 (audited)</i>				
<i>Asset at fair value</i>				
<i>(Available-for-sale financial assets)</i>				
Investment securities - debt	74,746	-	-	74,746
Investment securities - equity	28,784	-	107	28,891
Foreign exchange contracts	-	235	-	235
Derivative financial instruments	-	23,258	-	23,258
<i>Held-for-trading</i>				
Investment market fund	3,966	-	-	3,966
<i>Asset at amortised cost</i>				
Investment securities	3,865,421	-	220,385	4,085,806
	<u>3,972,917</u>	<u>23,493</u>	<u>220,492</u>	<u>4,216,902</u>

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

**29. Comparative figures**

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

*Extract of condensed consolidated statement of financial position:*

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

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

**30. Seasonality of results**

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

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

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