

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

**Condensed consolidated interim financial information
for the six months ended 30 June 2015**

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

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Review report to the Directors of The National Bank of Ras Al-Khaimah (P.S.C.)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of The National Bank of Ras Al-Khaimah (P.S.C.) ("the Bank") and its subsidiaries (together referred to as "the Group") as at 30 June 2015 and the related condensed consolidated interim statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of Review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of condensed consolidated 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 condensed consolidated interim financial information is not prepared, in all material respects, in accordance with IAS 34 – Interim Financial Reporting.

PricewaterhouseCoopers
27 July 2015

Paul Suddaby
Registered Auditor Number 309
Dubai, United Arab Emirates

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

Condensed consolidated statement of financial position

	Notes	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
ASSETS			
Cash and balances with UAE Central Bank	3	4,450,585	4,217,469
Due from other banks	4	536,756	305,947
Loans and advances, net	5	27,069,387	25,266,475
Investment securities	7	4,179,796	3,785,289
Property and equipment, net	8	926,257	937,714
Insurance contract assets and receivables	9	318,091	-
Goodwill and other intangible assets	10	178,954	-
Other assets	11	399,741	317,263
Total assets		38,059,567	34,830,157
EQUITY AND LIABILITIES			
EQUITY			
Share capital	12	1,676,245	1,676,245
Share premium		110,350	110,350
Retained earnings		1,661,686	1,784,065
Other reserves	13	3,552,513	3,560,461
Equity attributable to equity holders of the Bank		7,000,794	7,131,121
Non-controlling interests	14	35,439	-
Total shareholders' equity		7,036,233	7,131,121
LIABILITIES			
Due to other banks	15	1,003,209	761,807
Deposits from customers	16	26,056,522	24,651,408
Debt security in issue	18	2,787,166	1,667,629
Insurance contract liabilities and payables	19	366,602	-
Other liabilities	20	731,766	545,195
Provision for employees' end of service benefits		78,069	72,997
Total liabilities		31,023,334	27,699,036
Total equity and liabilities		38,059,567	34,830,157

This condensed consolidated interim financial information was approved by the Board Audit and Risk Committee on 27 July 2015 and was signed on by:



 Peter William England
 Chief Executive Officer

The notes 1 to 37 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated income statement (reviewed)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2015	2014	2015	2014
		AED'000	AED'000	AED' 000	AED '000
Interest income	23	714,071	691,385	1,418,983	1,359,128
Interest expense	23	(55,165)	(50,997)	(106,472)	(102,326)
Net interest income		658,906	640,388	1,312,511	1,256,802
Income from Islamic financing	24	99,180	42,916	187,528	72,996
Distribution to depositors	24	(7,496)	(7,630)	(15,919)	(14,911)
Income from Islamic financing net of distribution to depositors		<u>91,684</u>	<u>35,286</u>	<u>171,609</u>	<u>58,085</u>
Net interest income and income from Islamic products net of distribution to depositors		750,590	675,674	1,484,120	1,314,887
Net fees and commission income	25	172,929	170,252	339,502	319,756
Foreign exchange income		25,714	21,265	47,685	41,444
Gross insurance underwriting profit	26	3,033	-	3,033	-
Investment income/(loss)	27	300	(296)	577	2,044
Other operating income		20,955	7,448	30,921	20,889
Non-interest income		<u>222,931</u>	<u>198,669</u>	<u>421,718</u>	<u>384,133</u>
Operating income		<u>973,521</u>	<u>874,343</u>	<u>1,905,838</u>	<u>1,699,020</u>
Operating expenses	28	(385,662)	(380,452)	(762,703)	(740,219)
Operating profit before provision for impairment		<u>587,859</u>	<u>493,891</u>	<u>1,143,135</u>	<u>958,801</u>
Provision for impairment of loans and advances net of write backs	5(d)	(233,884)	(128,028)	(426,960)	(258,370)
Net profit for the period		<u>353,975</u>	<u>365,863</u>	<u>716,175</u>	<u>700,431</u>
Attributed to:					
Equity holders of the Bank		353,922	365,863	716,122	700,431
Non-controlling interests		53	-	53	-
Net profit for the year		<u>353,975</u>	<u>365,863</u>	<u>716,175</u>	<u>700,431</u>
Earnings per share					
Basic and diluted in AED	29	<u>0.21</u>	<u>0.22</u>	<u>0.43</u>	<u>0.42</u>

The notes 1 to 37 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of comprehensive income (reviewed)

	Notes	Three months ended 30 June		Six months ended 30 June	
		2015	2014	2015	2014
		AED'000	AED'000	AED'000	AED'000
Profit for the period		353,975	365,863	716,175	700,431
Other comprehensive income:					
Net changes in fair value of available-for- sale investment securities	7	(4,384)	(1,809)	(6,342)	(1,235)
Other comprehensive income for the period		(4,384)	(1,809)	(6,342)	(1,235)
Total Comprehensive income for the period		<u>349,591</u>	<u>364,054</u>	<u>709,833</u>	<u>699,196</u>
Attributed to:					
Equity holders of the Bank		350,330	364,054	710,572	699,196
Non-controlling interests		(739)	-	(739)	-
Total Comprehensive income for the period		<u>349,591</u>	<u>364,054</u>	<u>709,833</u>	<u>699,196</u>

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

Condensed consolidated statement of changes in equity (reviewed)

Note	Share capital AED'000	Share premium AED'000	Retained earnings AED'000	Other reserves AED'000	Equity attributable to equity holders of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
At 1 January 2015	1,676,245	110,350	1,784,065	3,560,461	7,131,121	-	7,131,121
Non-controlling interest and treasury stock elimination on RAKNIC acquisition	-	-	-	(2,398)	(2,398)	36,178	33,780
Total comprehensive income for the year	-	-	716,122	(5,550)	710,572	(739)	709,833
Zakat	-	-	(378)	-	(378)	-	(378)
Dividend paid to equity holders of the Bank	-	-	(838,123)	-	(838,123)	-	(838,123)
At 30 June 2015	1,676,245	110,350	1,661,686	3,552,513	7,000,794	35,439	7,036,233
At 1 January 2014	1,676,245	110,350	1,452,439	3,277,036	6,516,070	-	6,516,070
Total comprehensive income for the year	-	-	700,431	(1,235)	699,196	-	699,196
Dividend paid to equity holders of the Bank	-	-	(838,123)	-	(838,123)	-	(838,123)
At 30 June 2014	1,676,245	110,350	1,314,747	3,275,801	6,377,143	-	6,377,143

The notes 1 to 37 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of cash flows (reviewed)

	Notes	Six months ended 30 June	
		2015 AED'000	2014 AED'000
Operating activities			
Net Profit for the period		716,175	700,431
Adjustments:			
Provision for impairment of loans and advances net of write backs	5(d)	451,182	287,045
Depreciation	8	60,836	64,183
Amortisation of intangible assets	10	267	-
Provision for employees' end of service benefits		7,987	10,323
Gain on disposal of property and equipment		(53)	(288)
Amortisation of premium relating to securities held to maturity	7	8,760	7,768
Loss on held for trading investment securities	7	55	130
Operating cash flows before payment of employees end of service benefits and changes in working capital:		1,245,209	1,069,592
Payment of employees' end of service benefits		(6,472)	(3,834)
Changes in working capital:			
Deposits with the UAE Central Bank	3	(272,095)	(1,093,325)
Due from other banks with original maturities of three months or over		4,796	(36,730)
Loans and advances, Islamic Financing assets net of provisions for impairment	5	(2,254,094)	(1,740,745)
Insurance contracts assets and receivables		(19,745)	-
Goodwill and intangibles	10	267	-
Other assets		(72,666)	(36,600)
Due to other banks (net of amount due to Central Bank)	15	241,402	391,994
Deposits from customers	16	1,405,114	2,426,888
Insurance contracts liabilities and payables		(41,430)	-
Other liabilities		172,114	96,489
Net cash generated from operating activities		402,400	1,073,729
Investing activities			
Purchase of investment securities	7	(441,173)	(863,803)
Purchase of property and equipment	8	(30,431)	(20,424)
Investment in RAKNIC, net		(203,956)	-
Proceeds from maturity / disposal of investments	7	83,431	-
Proceeds from disposal of property and equipment		315	304
Net cash used in investing activities		(591,814)	(883,923)

The notes 1 to 37 form an integral part of the condensed consolidated interim financial statements

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

Condensed consolidated statement of cash flows (reviewed) (continued)

		Six months ended 30 June	
		2015	2014
	Notes	AED'000	AED'000
Financing activities			
Dividends paid	12	(838,123)	(838,123)
Zakat paid		(378)	-
Debt securities issued	18	1,119,537	1,636,923
Net cash used in financing activities		<u>281,036</u>	<u>798,800</u>
Net increase/(decrease) in cash and cash equivalents		91,622	988,606
Cash and cash equivalents, beginning of the period		1,002,191	1,310,347
Cash and cash equivalents, end of the period	31	<u>1,093,813</u>	<u>2,298,953</u>

The notes 1 to 37 form an integral part of the condensed consolidated interim financial statements

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015

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.

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

In the Ordinary General Assembly on 18 August 2014, the shareholders of the Bank approved the acquisition of a majority stake in Ras Al Khaimah National Insurance Company PSC (RAKNIC) at a cash price of AED 3.64 per share. The Bank received approval on 6 January 2015 from the Central Bank of UAE to proceed with the share purchase offer to the shareholders of RAKNIC. In May 2015 the Bank made a public offer to shareholders of RAKNIC to purchase their shareholding at a cash price of AED 3.64 per share. 79.23% of RAKNIC shareholders accepted this offer and on 28 May 2015 the bank acquired 79.23% stake in RAKNIC, which has been accounted for as a subsidiary from that date – see note 37 for details of the business combination. Accordingly, the consolidated results include the results of RAKNIC from the date of acquisition to 30 June 2015 and include the assets less liabilities of RAKNIC on 30 June 2015.

At 30 June 2015, 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 ended 30 June 2015 comprises the Bank and its subsidiaries.

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

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies

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

(a) Basis of preparation

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

The preparation of condensed consolidated interim financial information in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

The accounting policies and methods of computation applied by the Group in the condensed consolidated interim financial information are the same as those applied by the Group in its audited consolidated financial statements as at and for the year ended 31 December 2014. Additionally, policies regarding the Insurance business acquisition have also been included in the Group's condensed consolidated interim financial information for the first time.

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

New standards and significant amendments to standards applicable to the Group	Effective date
<p>Annual improvements 2012</p> <p>These annual improvements amend standards from the 2010 - 2012 reporting cycle. It includes changes to:</p> <ul style="list-style-type: none">• IFRS 8, 'Operating segments' which is amended to require disclosure of the judgements made by management in applying the aggregation criteria to operating segments. It is also amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported.• IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.• IAS 24, 'Related party disclosures' is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (the 'management entity'). Disclosure of the amounts charged to the reporting entity is required.	1 July 2014

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

New standards and significant amendments to standards applicable to the Group	Effective date
Annual improvements 2013 <ul style="list-style-type: none">IFRS 13 'Fair value measurement' on clarification of the portfolio exemption in IFRS 13 - The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9.	1 July 2014
IAS 19, Defined benefit plans : Employee contributions The amendment clarifies the accounting by entities with plans that require contributions linked only to service in each period. Entities with plans that require contributions that vary with service will be required to recognise the benefit of those contributions over employees' working lives. Management should consider how it will apply that model.	1 July 2014

There is no impact of these provisions on the condensed consolidated interim financial information of the Group.

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

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

Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets' regarding depreciation and amortisation. This amendment clarifies that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. The presumption may only be rebutted in certain limited circumstances. IAS 1 Amendments to IAS 1, 'Presentation of financial statements' Disclosure initiative. The amendments clarify that it may be necessary to disaggregate some of the line items specified in IAS 1 paragraphs 54 (statement of financial position) and 82 (profit or loss). That disaggregation is required where it is relevant to an understanding of the entity's financial position or performance.	1 January 2016
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The National Bank of Ras Al-Khaimah (P.S.C.)

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

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

<p>Annual improvements 2014</p> <p>These annual improvements amend standards from the 2012 - 2014 reporting cycle. It includes changes to:</p> <ul style="list-style-type: none">• IFRS 7, 'Financial instruments: Disclosures' – The amendment related to servicing contracts requires that if an entity transfers a financial asset to a third party under conditions which allow the transferor to derecognise the asset, IFRS 7 requires disclosure of all types of continuing involvement that the entity might still have in the transferred assets.• IAS 19, 'Employee benefits' – The amendment clarifies, when determining the discount rate for post-employment benefit obligations, that it is the currency that the liabilities are denominated in that is important, not the country where they arise.• IAS 34, 'Interim financial reporting', regarding information disclosed elsewhere in the interim financial report. The amendment clarifies what is meant by the reference in the standard to 'information disclosed elsewhere in the interim financial report'. The amendment further amends IAS 34 to require a cross-reference from the interim financial statements to the location of that information. The amendment is retrospective.	<p>1 July 2016</p>
<p>IFRS 15, 'Revenue from contracts with customers'</p> <p>This standard replaces IAS 11, 'Construction contracts', IAS 18, 'Revenue' and related interpretations. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use of and obtain the benefits from the good or service. The core principle of IFRS 15 is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. IFRS 15 also includes a cohesive set of disclosure requirements that will result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers.</p>	<p>1 January 2018</p>

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

(a) Basis of preparation (continued)

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

IFRS 9, 'Financial instruments' The complete version of IFRS 9 replaces most of the guidance in IAS 39. IFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value, through profit or loss. IFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually uses for risk management purposes. Contemporaneous documentation is still required but is different to that currently prepared under IAS 39.	1 January 2018 Earlier application is permitted. If an entity elects to early apply it must apply all of the requirements at the same time with the following exception: Entities with a date of initial application before 1 February 2015 continue to have the option to apply the standard in phases.
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The Group is assessing the impact of the above new standards and amendments to published standards or IFRIC interpretations issued but not yet effective for the Group's financial year beginning on 1 January 2015.

There are no other applicable new standards and amendments to published standards or International Financial Reporting Interpretations Committee (interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2015 that would be expected to have a material impact on the condensed consolidated interim financial information of the Group.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

(b) Consolidation

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

Subsidiaries

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

Transactions eliminated on consolidation

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

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.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

(b) Consolidation (continued)

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

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

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

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

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

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

The Group first assesses whether objective evidence of impairment exists either individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

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

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

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

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

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.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

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

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

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

(d) Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Salam, Mudaraba, and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are as per Note 2(c).

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.

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.

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.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

(d) Islamic financing (continued)

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.

Ijara

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

(e) Intangible assets

Intangible assets acquired in a business combination are measured on initial recognition at cost, which is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of income in the expense category consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

(e) Intangible assets (continued)

i) License

The license represents the right to conduct insurance operations, which is granted by the relevant insurance regulator. This license is assessed as having an indefinite useful life.

ii) Customer relationships

The value of customer relationships represents the value of future cash flows expected from renewals and the cross-selling of new products to customers known and identified at the time of the acquisition and will be amortised on a straight line basis over the estimated useful life which is 4 years.

(f) Insurance contracts

i) Insurance and reinsurance contracts held

The Group issues contracts that transfer insurance risks in the general insurance category. The general insurance category comprises Casualty, Group Life, Financial Lines, Fire, Marine, Energy and Accident and Health.

The Group writes the following types of insurance contracts:

- Accident insurance
- Property insurance
- Motor insurance
- Fire insurance
- Casualty insurance
- Medical insurance
- Marine insurance
- Engineering insurance
- Group life insurance

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received in respect of in-force contracts that relates to unexpired risks at the statement of financial position date is reported as unearned premium liability. Premiums are shown before deduction of commission.

Claim and loss adjustment expenses are charged to the income statement as incurred, based on the estimated liability for compensation owed to insurance contract holders. Such expenses include direct and indirect claims settlement costs and arise from events that have occurred up to the statement of financial position date even if they have not yet been reported to the Group. The Group does not discount its liabilities for unpaid claims. Liabilities for unpaid claims are estimated using the input of assessments for individual cases reported to the Group and the Group's statistical analysis for the claims Incurred But Not Reported ("IBNR"). IBNR is reviewed by an independent actuary on a yearly basis.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

(f) Insurance contracts (continued)

Contracts entered into by the Group with other reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held.

The benefits to which the Group is entitled under its reinsurance contracts held are recognised as reinsurance assets. These assets consist of short-term balances due from reinsurers (classified within insurance contract assets and receivables, as well as the reinsurance portion of gross claims outstanding including IBNR that are dependent on the expected claims and benefits arising under the related reinsured contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense proportionally over the period of coverage.

The Group assesses its reinsurance assets for impairment on a quarterly basis. If there is objective evidence that the reinsurance asset is impaired, the Group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. Objective evidence that a reinsurance asset is impaired includes observable data that comes to the attention of the Group about events such as significant financial difficulty of the debtor, breach of contract and it becomes probable that the debtor will enter bankruptcy or other financial reorganisation.

(ii) Liability adequacy test

At the end of each reporting period, the Group assesses whether its recognised insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognised in profit or loss and an unexpired risk provision is created.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

2 Significant accounting policies (continued)

(f) Insurance contracts (continued)

Provision is made for premium deficiency arising from general insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision and already recorded claim liabilities in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

(iii) Insurance and other receivables

Insurance and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses. A provision for impairment of receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future statement of cash flows, discounted at the effective interest rate.

The carrying amount of the receivable is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administration expenses. When a receivable is uncollectible, it is written off against the allowance account for that receivable. Subsequent recoveries of amounts previously written off are credited against other operating expenses in the income statement.

(iv) Deferred acquisition costs

The costs attributable to the acquisition of new business for insurance contracts and renewing existing contracts are capitalised as an intangible asset under Deferred Acquisition Costs (DAC). All other costs are recognised as expenses when incurred. DAC are subsequently amortised over the life of the contracts as premium is earned.

Deferred acquisition costs are reviewed by category of business at the end of each reporting period and are written off where they are no longer considered to be recoverable.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

3 Cash and balances with the UAE Central Bank

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Cash in hand	657,265	696,244
Statutory deposit with the UAE Central Bank	2,843,320	2,521,225
Certificates of deposit with the UAE Central Bank	950,000	1,000,000
	<u>4,450,585</u>	<u>4,217,469</u>

4 Due from other banks

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Placements with other banks	291,817	73,460
Demand deposits	163,444	124,036
Clearing account balances	81,495	108,451
	<u>536,756</u>	<u>305,947</u>

The below represents deposits and balances due from banks by resident country:

Banks in UAE	425,403	182,211
Banks outside UAE	111,353	123,736
	<u>536,756</u>	<u>305,947</u>

5 Loans and advances, net (Including Islamic financing)

(a) Loans and advances

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Retail loans	24,722,483	23,597,597
Corporate loans	2,976,596	2,208,105
Loans and advances (Note 5(b))	27,699,079	25,805,702
Provision for impairment (Note 5(c))	(629,692)	(539,227)
Net loans and advances	<u>27,069,387</u>	<u>25,266,475</u>

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

5 Loans and advances, net (Including Islamic financing)(continued)

(b) Analysis of loans and advances

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Personal loans	4,945,069	5,329,923
Mortgage loans	3,844,068	3,769,208
Credit cards	2,975,711	2,895,428
Auto loans	2,020,001	1,957,495
RAKfinance business loans	5,247,935	5,116,989
Business banking loans	2,938,079	2,208,105
Other retail loans	1,373,378	1,125,878
Islamic Financing assets	4,354,838	3,402,676
Total loans and advances	<u>27,699,079</u>	<u>25,805,702</u>

(c) Provision for impairment

	Retail loans AED'000	Corporate loans AED'000	Total AED'000
Balance brought forward 1 January 2015	505,816	33,411	539,227
Impairment charge (Note 5(d))	441,435	9,747	451,182
Written off during the period	(330,069)	(30,648)	(360,717)
Balance carried forward 30 June 2015	<u>617,182</u>	<u>12,510</u>	<u>629,692</u>
Balance brought forward 1 January 2014	365,032	30,581	395,613
Impairment charge	642,404	3,162	645,566
Written off during the year	(501,620)	(332)	(501,952)
Balance carried forward 31 December 2014	<u>505,816</u>	<u>33,411</u>	<u>539,227</u>

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

5 Loans and advances, net (Including Islamic financing) (continued)

(d) Impairment charge on loans and advances net of recovery

	Retail loans AED'000	Corporate loans AED'000	Total AED'000
Three months ended 30 June 2015 (reviewed)			
Impairment charge	241,676	6,461	248,137
Recovery during the period	(14,253)	-	(14,253)
	<u>227,423</u>	<u>6,461</u>	<u>233,884</u>
Three months ended 30 June 2014 (reviewed)			
Impairment Charge	139,880	104	139,984
Recovery during the period	(11,956)	-	(11,956)
	<u>127,924</u>	<u>104</u>	<u>128,028</u>
Six months ended 30 June 2015 (reviewed)			
Impairment charge	441,435	9,747	451,182
Recovery during the period	(24,222)	-	(24,222)
	<u>417,213</u>	<u>9,747</u>	<u>426,960</u>
Six months ended 30 June 2014 (reviewed)			
Impairment charge	286,801	244	287,045
Recovery during the period	(28,675)	-	(28,675)
	<u>258,126</u>	<u>244</u>	<u>258,370</u>

Recoveries mainly represent amounts subsequently recovered from fully written off loans.

(e) Impaired loans and advances provision coverage

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Aggregate impaired loans	<u>756,138</u>	<u>618,762</u>
Provision held	<u>629,692</u>	<u>539,227</u>
Coverage ratio	<u>83.28%</u>	<u>87.15%</u>

The ratio of provisions held to aggregate impaired loans ("coverage ratio") does not take into account collateral available, including cash, property and other realisable assets.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

6 Islamic Financing assets

(a) Islamic financing assets

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Islamic business banking assets	38,517	-
Islamic retail financing asset	4,316,321	3,402,676
Total Islamic financing assets	4,354,838	3,402,676
Provision for impairment	(110,922)	(43,217)
	<u>4,243,916</u>	<u>3,359,459</u>

(b) Analysis of Islamic financing assets

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Islamic salam personal finance	1,799,336	1,606,126
Islamic auto murabaha	1,134,309	876,169
Islamic business finance	946,522	649,578
Islamic Ijara Property finance	275,550	128,176
Islamic credit cards	160,248	142,381
Islamic business banking	38,517	-
Islamic finance - Others	356	246
	<u>4,354,838</u>	<u>3,402,676</u>

7 Investment securities

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Securities available-for-sale		
Quoted equity securities	55,782	18,361
Unquoted equity securities	107	-
Quoted debt securities	37,631	41,839
	<u>93,520</u>	<u>60,200</u>
Held for trading		
Quoted mutual funds fair valued through profit and loss	4,710	-
Securities held-to-maturity		
Unquoted debt securities	220,380	-
Quoted debt securities *	3,861,186	3,725,089
	<u>4,081,566</u>	<u>3,725,089</u>
Investment securities	<u>4,179,796</u>	<u>3,785,289</u>

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

7 Investment securities (continued)

*Quoted debt securities with book value of AED 264.1 million as at 30 June 2015 has been given as collateral against repo borrowing of AED 254.6 million (refer note 15)

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

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Federal and local Government – UAE	703,740	705,654
Government related entity – UAE	1,046,006	1,131,698
Government – GCC	37,188	37,217
Government related entity – GCC	87,212	86,961
Banks and financial institutions – UAE	628,109	628,659
Banks and financial institutions – GCC	58,762	58,795
Banks and financial institutions – India	824,647	605,198
Banks and financial institutions – Turkey	220,806	-
Public limited companies – UAE	185,147	185,213
Public limited companies – India	327,580	327,533
Total Debt securities	4,119,197	3,766,928
Quoted equity securities	55,782	18,361
Quoted mutual funds	4,710	-
Unquoted equity securities	107	-
Total investment securities	4,179,796	3,785,289

The movement in investment securities is as follows:

	Securities available-for- sale AED'000	Securities held for trading AED'000	Securities held – to – maturity AED'000	Total AED'000
At 1 January 2015	60,200	-	3,725,089	3,785,289
Investment acquired on RAKNIC acquisition	43,450	4,765	3,707	51,922
Purchases	-	-	441,173	441,173
Disposal /maturities	(3,673)	-	(79,758)	(83,431)
Net changes in fair value	(6,342)	(55)	-	(6,397)
Amortisation of premium	(115)	-	(8,645)	(8,760)
At 30 June 2015 (Reviewed)	93,520	4,710	4,081,566	4,179,796
At 1 January 2014	42,268	-	2,653,684	2,695,952
Purchases	50,676	9,359	803,768	863,803
Net changes in fair value	(1,235)	(130)	-	(1,365)
Amortisation of premium	(53)	-	(7,715)	(7,768)
At 30 June 2014 (Reviewed)	91,656	9,229	3,449,737	3,550,622

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

8 Property and equipment, net

	Land and buildings AED'000	Leasehold improvements AED'000	Other fixed assets AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2015	643,532	123,956	790,613	10,744	1,568,845
RAKNIC acquisition	16,068	-	3,141	-	19,209
Additions	-	-	9,682	20,749	30,431
Transfers	2,215	1,310	11,437	(14,962)	-
Disposals	-	-	(2,278)	-	(2,278)
At 30 June 2015	<u>661,815</u>	<u>125,266</u>	<u>812,595</u>	<u>16,531</u>	<u>1,616,207</u>
Accumulated depreciation					
At 1 January 2015	86,676	87,439	457,016	-	631,131
Charge for the period	10,841	7,332	42,663	-	60,836
Disposals	-	-	(2,017)	-	(2,017)
At 30 June 2015	<u>97,517</u>	<u>94,771</u>	<u>497,662</u>	<u>-</u>	<u>689,950</u>
Net book amount					
At 30 June 2015	<u>564,298</u>	<u>30,495</u>	<u>314,933</u>	<u>16,531</u>	<u>926,257</u>
At 31 December 2014	<u>556,856</u>	<u>36,517</u>	<u>333,597</u>	<u>10,744</u>	<u>937,714</u>

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

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

8 Property and equipment, net (continued)

	Land and buildings AED'000	Leasehold improvements AED'000	Other fixed assets AED'000	Capital work in progress AED'000	Total AED'000
Cost					
At 1 January 2014	609,162	119,378	764,082	41,982	1,534,604
Additions	-	-	6,176	14,248	20,424
Transfers	3,396	3,384	8,340	(15,120)	-
Disposals	-	-	(1,341)	-	(1,341)
At 30 June 2014	612,558	122,762	777,257	41,110	1,553,687
Accumulated depreciation					
At 1 January 2014	66,255	72,602	366,874	-	505,731
Charge for the period	10,354	7,611	46,218	-	64,183
Disposals	-	-	(1,325)	-	(1,325)
At 30 June 2014	76,609	80,213	411,767	-	568,589
Net book amount					
At 30 June 2014	535,949	42,549	365,490	41,110	985,098
At 31 December 2013	542,907	46,776	397,208	41,982	1,028,873

9 Insurance contract assets and receivables

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Reinsurance contract assets		
Claims reported unsettled	53,199	-
Claims incurred but not reported	2,660	-
Deferred insurance premiums	59,344	-
Total reinsurance contract assets	115,203	-
Insurance related receivables		
Premium receivables	198,902	-
Reinsurance companies	11,242	-
Insurance agents and brokers	3,609	-
Gross insurance related receivables	213,753	-
Provision for doubtful receivables	(10,865)	-
Net insurance related receivables	202,888	-
Insurance contract assets & receivables	318,091	-

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

10 Goodwill and other intangible assets

	Provisional Goodwill	Other Intangible Assets		Goodwill and other intangible assets
	AED'000	Customer Relationships AED'000	Insurance License AED'000	
Cost				
As at 1 January 2015	-	-	-	-
RAKNIC acquisition	100,782	12,835	65,604	179,221
As at 30 June 2015	100,782	12,835	65,604	179,221
Accumulated Depreciation				
As at 1 January 2015	-	-	-	-
Charge for the period	-	(267)	-	(267)
As at 30 June 2015	-	(267)	-	(267)
Net Book amount				
As at 30 June 2015	100,782	12,568	65,604	178,954

IFRS 3 allows initial accounting for a business combination to be determined only provisionally by the end of the period in which the business combination occurs. This initial accounting should be completed in a period not exceeding twelve months from the acquisition date. Hence, goodwill has been identified as provisional.

11 Other assets

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Interest receivable	179,702	182,985
Profit receivable on Islamic financing assets	41,435	36,175
Prepayments and deposits	76,204	59,252
Interest rate swaps	23,212	12,789
Others	79,188	26,062
	<u>399,741</u>	<u>317,263</u>

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

12 Share capital and dividend

At 30 June 2015, the authorised, issued and fully paid share capital of the Group comprised 1,676.25 million shares of AED 1 each (31 December 2014: 1,676.25 million shares of AED 1 each).

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

13 Other reserves

Other reserves include legal reserve and voluntary reserve. In accordance with the Articles of Association of the Group, 10% of the net profit for the year is to be transferred to a legal reserve until such time as the balance in the reserve equals 50% of the issued share capital and 10% of the net profit for the year is to be transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. No allocations to the legal reserve and the voluntary reserve have been made for the six month period ended 30 June 2015, as these will be effected at the year end based on the Group's audited results for the year ending 31 December 2015. The movement in other reserves is on account of fair value gains on investment securities.

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

On acquisition, RAKNIC was holding and continued to hold at 30 June 2015 312,585 of the Bank's shares with a value of AED 2,398 thousand in its investment securities portfolio. The investment in these shares has been treated as treasury shares and deducted from the Bank's reserves.

14 Non-controlling interests

	For the period 28 May to 30 June 2015 AED'000 (Reviewed)	Year ended 31 December 2014 AED'000 (Audited)
Balance at the beginning of the period	-	-
RAKNIC acquisition *	36,178	-
Profit for the period	53	-
Other comprehensive loss for the period	(792)	-
Balance at the end of the period	35,439	-

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

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

15 Due to other banks

	30 June 2015 AED'000 (Reviewed)	31 December 2014 AED'000 (Audited)
Term deposits	170,000	744,067
Repurchase agreements	254,603	-
Current account balance with the UAE Central Bank	576,801	16,946
Demand deposits	1,805	794
	<u>1,003,209</u>	<u>761,807</u>

16 Deposits from customers

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Time deposits	4,863,537	5,459,454
Current accounts	13,197,946	11,622,189
Savings deposits	3,734,320	3,712,889
Call deposits	1,308,177	1,265,324
Islamic customer deposits	2,952,542	2,591,552
	<u>26,056,522</u>	<u>24,651,408</u>

Time deposits include AED 483 million (2014: AED 296 million) held by the Group as cash collateral for loans and advances granted to customers.

17 Islamic customer deposits

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Wakala deposits	1,365,465	1,534,249
Mudaraba term investment deposits	49,174	76,625
Qard-E-Hasan -current accounts	460,827	338,295
Mudaraba -current accounts	888,423	485,852
Mudaraba -savings deposits	169,562	153,499
Mudaraba-call deposits	19,091	3,032
	<u>2,952,542</u>	<u>2,591,552</u>

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

18 Debt security in issue

	30 June 2015 AED'000	31 December 2014 AED'000
USD 500 million medium term note issued at discount in June 2014	1,825,614	1,824,467
USD 300 million medium term note issued at premium in March 2015	1,111,087	-
Less : Own investment in debt security issued	(160,679)	(160,553)
Less : Debt security issue costs	(12,068)	(9,074)
Fair value adjustment on hedged debt securities in issue	23,212	12,789
	<u>2,787,166</u>	<u>1,667,629</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.

19 Insurance contract liabilities and payables

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Insurance contract liabilities		
Claims reported unsettled	86,500	-
Claims incurred but not reported	4,325	-
Unearned premiums	185,529	-
Total reinsurance contract assets	<u>276,354</u>	<u>-</u>
Insurance related payables		
Creditors	8,956	-
Reinsurance payables	68,731	-
Commission payables	12,561	-
Total insurance related payables	<u>90,248</u>	<u>-</u>
Insurance contract liabilities and payables	<u>366,602</u>	<u>-</u>

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

20 Other liabilities

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Interest payable	21,647	26,099
Profit distributable on Islamic deposits	10,181	15,629
Accrued expenses	181,252	212,080
Managers cheques issued	281,695	148,036
Others	236,991	143,351
	<u>731,766</u>	<u>545,195</u>

21 Contingencies and commitments

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Commitments to extend credit	34,775	36,069
Letters of guarantee	682,717	678,812
Letters of credit	116,141	78,868
Acceptances	84,448	50,863
Capital commitments	18,984	10,182
	<u>937,065</u>	<u>854,794</u>

Commitments to extend credit represents unfunded amounts out of approved limits offered to customers, of which AED 8,151 million (31 December 2014 AED 7,768 Million) are revocable at the discretion of the Group.

22 Forward foreign exchange and interest rate swap contracts

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

Outstanding forward foreign exchange transactions at 30 June 2015 and 31 December 2014 are as follows:

	Contract amount AED'000	Fair value AED'000
30 June 2015	<u>708,390</u>	<u>120</u>
31 December 2014	<u>980,115</u>	<u>361</u>

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

22 Forward foreign exchange and interest rate swap contracts (continued)

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

Outstanding interest rate swap transactions at 30 June 2015 and 31 December 2014 are as follows:

	Contract amount AED'000	Fair value AED'000
30 June 2015	2,776,788	23,212
31 December 2014	1,674,888	12,789

23 Interest income and expense

	Three months ended 30 June (Reviewed)		Six months ended 30 June (Reviewed)	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Interest income				
Personal loans	96,834	122,146	197,569	255,985
Mortgage loans	44,616	52,132	89,481	104,202
Credit cards	165,945	160,068	328,443	313,081
Auto loans	37,301	34,389	74,205	67,397
RAKFinance loans	247,034	240,979	491,239	468,811
Business banking loans	60,436	31,228	116,933	55,954
Other retails banking loans	17,573	10,060	33,764	17,483
Investment securities	42,594	38,302	84,171	72,218
Deposits with central bank of UAE	1,020	986	2,020	1,834
Other banks	718	1,095	1,158	2,163
Total interest income	714,071	691,385	1,418,983	1,359,128
	Three months ended 30 June (Reviewed)		Six months ended 30 June (Reviewed)	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Interest expense				
Due to customers	41,546	50,143	82,584	101,361
Euro medium term notes	12,984	570	22,610	570
Borrowings from other banks	635	284	1,278	395
Total interest expense	55,165	50,997	106,472	102,326
Net interest income	658,906	640,388	1,312,511	1,256,802

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

24 Income from Islamic financing and distribution to depositors

	Three months ended 30 June (Reviewed)		Six months ended 30 June (Reviewed)	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Income from Islamic Financing				
Islamic salam personal finance	35,287	22,587	69,264	40,195
Islamic auto Murabaha	19,606	10,889	36,790	18,969
Islamic business finance	41,622	8,961	77,108	12,963
Islamic investments	-	396	-	783
Islamic asset based finance	455	-	486	-
Islamic property finance	2,210	83	3,880	86
Total income from Islamic Financing	99,180	42,916	187,528	72,996
Distribution to Islamic term depositors	(6,222)	(5,864)	(13,745)	(11,608)
Distribution to Islamic demand depositors	(1,274)	(1,766)	(2,174)	(3,303)
Distribution to Islamic depositors	(7,496)	(7,630)	(15,919)	(14,911)
Income from Islamic financing net of distribution to depositors	91,684	35,286	171,609	58,085

25 Net fees and commission income

	Three months ended 30 June (Reviewed)		Six months ended 30 June (Reviewed)	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Personal loans	7,559	8,060	14,405	15,753
Mortgage loans	8,417	9,318	16,419	17,562
Credit cards	58,147	52,853	116,247	98,769
Auto loans	4,895	10,245	9,560	19,799
RAKFinance loans	17,093	19,152	36,536	36,470
Business banking loans	14,157	12,768	27,876	23,928
Fiduciary income	25,692	21,730	46,253	40,188
Bancassurance	16,588	18,253	31,484	32,448
Other retail banking	20,381	17,873	40,722	34,839
	172,929	170,252	339,502	319,756

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

26 Gross insurance underwriting profit

	Three months ended 30 June (Reviewed)		Six months ended 30 June (Reviewed)	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Gross insurance premium	45,885	-	45,885	-
Less: insurance premium ceded to reinsurers	(17,810)	-	(17,810)	-
Net retained premium	28,075	-	28,075	-
Net change in unearned premium reserve	(8,198)	-	(8,198)	-
Net insurance premium	19,877	-	19,877	-
Gross claims incurred	(13,861)	-	(13,861)	-
Insurance claims recovered from reinsurers	(1,003)	-	(1,003)	-
Net claims incurred	(14,864)	-	(14,864)	-
Gross commission earned	1,546	-	1,546	-
Less: commission incurred	(3,526)	-	(3,526)	-
Net commission incurred	(1,980)	-	(1,980)	-
Gross underwriting profit	3,033	-	3,033	-

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

27 Investment income

	Three months ended 30 June (Reviewed)		Six months ended 30 June (Reviewed)	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Unrealized loss	(55)	(869)	(55)	(130)
Dividend and other income	355	573	632	2,174
	<u>300</u>	<u>(296)</u>	<u>577</u>	<u>2,044</u>

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

28 Operating expense

	Three months ended 30 June (Reviewed)		Six months ended 30 June (Reviewed)	
	2015 AED'000	2014 AED'000	2015 AED'000	2014 AED'000
Staff costs	164,968	159,579	329,113	310,575
Occupancy costs	23,514	22,878	45,938	44,778
Marketing expenses	10,092	9,625	20,092	19,250
Depreciation and amortisation	30,566	32,261	61,103	64,183
Communication costs	9,489	9,583	17,558	18,262
Legal and consultancy fees	12,286	10,930	24,410	20,972
Computer expenses	21,559	19,338	40,854	38,036
Outsourced staff costs	91,879	94,605	185,743	179,708
Others	21,309	21,653	37,892	44,455
	<u>385,662</u>	<u>380,452</u>	<u>762,703</u>	<u>740,219</u>

29 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to shareholders by the weighted average number of ordinary shares in issue during the period. The weighted average number of ordinary shares during the period ended 30 June 2015 amounted to 1,676,245,428 shares (30 June 2014: 1,676,245,428 shares).

30 Fiduciary activities

The Group holds assets in a fiduciary capacity for its customers without recourse to itself. At 30 June 2015, such assets amounted to AED 1,799.7 million (31 December 2014: AED 1,775.5 million) and are excluded from the condensed consolidated interim financial information of the Group

31 Cash and cash equivalents

	At 30 June	
	2015 (Reviewed) AED'000	2014 (Reviewed) AED'000
Cash in hand and current account with the UAE Central Bank (Note 3)	657,265	707,662
Due from other banks (Note 4)	<u>536,756</u>	<u>1,628,021</u>
	1,194,021	2,335,683
Less; due from other banks with original maturity of three months or more	<u>(100,208)</u>	<u>(36,730)</u>
	<u>1,093,813</u>	<u>2,298,953</u>

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

32 Operating segments

Operating segments are reported in accordance with the internal reporting provided to the Management, which is responsible for allocating resources to the reportable segments and assesses its performance.

The Group has four main business segments:

- Retail banking – incorporating private customer current accounts, savings accounts, deposits, credit and debit cards, customer loans and mortgages;
- Business banking – incorporating transactions with corporate bodies including government and public bodies, small and medium entities; and comprising of loans, advances, deposits and trade finance transactions;
- Treasury – incorporating activities of the dealing room, related money market, foreign exchange transactions 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 most of the 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 cost of funds 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 operating profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses.

Segment assets and liabilities comprise operating assets and liabilities, being the majority of the condensed consolidated interim statement of financial position items.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

32 Operating segments (continued)

The segment information provided to the Management for the reportable segments for the period ended 30 June 2015 and 2014 is as follows:

30 June 2015	Retail banking AED'000	Business banking AED'000	Treasury and others AED'000	Insurance business AED'000	Unallocated Cost AED'000	Total AED'000
Net external interest income	1,150,187	104,876	57,147	301	-	1,312,511
Income from Islamic financing net of distribution to depositors	171,125	484	-	-	-	171,609
Transfer pricing income / expense	(18,509)	2,636	15,873	-	-	-
Net Interest /Income from Islamic financing	1,302,803	107,996	73,020	301	-	1,484,120
Non interest income	351,939	36,508	30,233	3,038	-	421,718
Operating income	1,654,742	144,504	103,253	3,339	-	1,905,838
Operating expense excluding depreciation and amortisation	(519,010)	(40,774)	(3,294)	(2,968)	(135,554)	(701,600)
Depreciation and amortisation	(25,146)	(1,206)	(44)	(380)	(34,327)	(61,103)
Total Operating expense	(544,156)	(41,980)	(3,338)	(3,348)	(169,881)	(762,703)
Impairment charge, net	(417,213)	(9,747)	-	-	-	(426,960)
Net profit / (loss)	693,373	92,777	99,915	(9)	(169,881)	716,175
Segment assets	25,052,688	2,967,537	8,265,378	789,536	-	37,075,139
Unallocated assets	-	-	-	-	984,428	984,428
Total assets	25,052,688	2,967,537	8,265,378	789,536	984,428	38,059,567
Segment liabilities	21,716,899	4,129,007	4,180,154	445,612	-	30,471,672
Unallocated liabilities	-	-	-	-	551,662	551,662
Total liabilities	21,716,899	4,129,007	4,180,154	445,612	551,662	31,023,334

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

32 Operating segments (continued)

30 June 2014	Retail banking AED'000	Business banking AED'000	Treasury and others AED'000	Insurance business AED'000	Unallocated Cost AED'000	Total AED'000
Net external interest income	1,150,702	41,761	64,339	-	-	1,256,802
Income from Islamic financing net of distribution to depositors	58,085	-	-	-	-	58,085
Transfer pricing income / expense	(15,498)	6,452	9,046	-	-	-
Net Interest /Income from Islamic financing	1,193,289	48,213	73,385	-	-	1,314,887
Non interest income	329,977	31,405	22,751	-	-	384,133
Operating income	1,523,266	79,618	96,136	-	-	1,699,020
Operating expense excluding depreciation	(508,077)	(28,834)	(3,045)	-	(136,080)	(676,036)
Depreciation	(28,435)	(734)	(29)	-	(34,985)	(64,183)
Total Operating expense	(536,512)	(29,568)	(3,074)	-	(171,065)	(740,219)
Impairment charge, net	(258,126)	(244)	-	-	-	(258,370)
Net profit / (loss)	728,628	49,806	93,062	-	(171,065)	700,431
Segment assets	22,999,724	1,356,084	9,073,617	-	-	33,429,425
Unallocated assets	-	-	-	-	1,117,200	1,117,200
Total assets	22,999,724	1,356,084	9,073,617	-	1,117,200	34,546,625
Segment liabilities	20,223,504	3,760,390	3,733,341	-	-	27,717,235
Unallocated liabilities	-	-	-	-	452,247	452,247
Total liabilities	20,223,504	3,760,390	3,733,341	-	452,247	28,169,482

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

33 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:

	Six months ended 30 June	
	2015 (Reviewed) AED'000	2014 (Reviewed) AED'000
Transactions during the period		
Interest income	108	417
Interest expense	3,290	4,505
Commission income	401	895
Directors' remuneration	4,095	5,721
Remuneration payable to key management Personnel	4,442	7,167
	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Balances		
Loans and advances:		
- Shareholders and their related companies	107	220
- Directors and their related companies	5,345	18,186
- Key management personnel	5,452	18,406
Due to customers:		
- Shareholders and their related companies	1,349,020	1,349,557
- Directors and their related companies	41,124	66,728
- Key management personnel	10,011	7,330
	1,400,155	1,423,615
Commitments and contingent liabilities and forward contracts		
- Shareholders and their related companies	146,386	122,860
- Directors and their related companies	426	456
	146,812	123,316
Insurance related receivable		
- Due from policy holders	18,399	-
Insurance related payables		
- Due to policy holders	185	-

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

34 Capital adequacy

Capital structure and capital adequacy as per Basel II requirement as at 30 June 2015

The Bank is required to report capital resources and risk-weighted assets under the Basel II Pillar 1 framework, as shown in the following table. The Bank has adopted standardised approach for calculation of credit risk and market risk capital charge. On operational risk, alternative standardised approach is followed for capital charge calculation under pillar1.

	30 June 2015 (Reviewed) AED'000	31 December 2014 (Audited) AED'000
Tier 1 capital		
Ordinary share capital	1,676,245	1,676,245
Share premium	110,350	110,350
Statutory and other reserves	3,557,935	3,560,461
Retained earnings	945,564	945,942
Total	<u>6,290,094</u>	<u>6,292,998</u>
Deductions		
Investment in RAKNIC	(317,244)	-
Tier 1 capital	<u>5,972,850</u>	<u>6,292,998</u>
Tier 2 capital	-	-
Total regulatory capital	<u>5,972,850</u>	<u>6,292,998</u>
Risk weighted assets		
Credit risk	23,698,991	22,206,238
Market risk	8,933	29,590
Operational risk	1,498,386	1,498,386
Total risk weighted assets	<u>25,206,310</u>	<u>23,734,214</u>
Capital adequacy ratio on regulatory capital	23.70%	26.51%
Capital adequacy ratio on Tier 1 capital	23.70%	26.51%

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

35 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 2015, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial asset and liability:

	Fair value		Carrying value	
	30 June 2015 AED'000	31 December 2014 AED'000	30 June 2015 AED'000	31 December 2014 AED'000
Assets				
Loans and advances	27,190,323	25,437,913	27,069,387	25,266,475
Investment securities	4,293,325	3,916,880	4,179,796	3,785,289
Cash and balances with the UAE central Bank	4,451,270	4,217,469	4,450,585	4,217,469
Due from other Banks	321,704	305,947	536,756	305,947
Total financial assets	36,256,622	33,878,209	36,236,524	33,575,180
Liabilities				
Due to banks	1,003,096	761,674	1,003,209	761,807
Due to customer	26,065,496	24,673,563	26,056,522	24,651,408
Debt securities issued	2,787,166	1,667,629	2,787,166	1,667,629
Total financial liabilities	29,855,758	27,102,866	29,846,897	27,080,844

36 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:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes debt instruments on stock exchanges.

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

36 Fair value hierarchy (continued)

Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

This hierarchy requires the use of observable market data when available. The Group considers relevant and observable market prices in its valuations where possible.

30 June 2015	Quoted market prices Level 1 AED '000	Observable inputs Level 2 AED '000	Significant unobservable inputs Level 3 AED '000	Total AED '000
Asset at fair value				
Available for sale financial assets				
- Investment securities – debt	37,631	-	-	37,631
- Investment securities – equity	35,889	-	-	35,889
- Foreign exchange contracts	-	120	-	120
Derivative financial instruments	-	23,212	-	23,212
Held for trading				
- Investments market fund	4,710	-	-	4,710
Asset at amortised cost				
Investment securities	3,995,889	219,206	-	4,215,095
	<u>4,074,119</u>	<u>242,538</u>	<u>-</u>	<u>4,316,657</u>
31 December 2014				
Asset at fair value				
Available for sale financial assets				
- Investment securities – debt	41,839	-	-	41,839
- Investment securities – equity	18,361	-	-	18,361
- Foreign exchange contracts	-	361	-	361
Derivative financial instruments	-	12,789	-	12,789
Asset at amortised cost				
Investment securities	3,856,680	-	-	3,856,680
	<u>3,916,880</u>	<u>13,150</u>	<u>-</u>	<u>3,930,030</u>

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

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

Notes to the condensed consolidated interim financial information for the six months ended 30 June 2015 (continued)

37 Business combination

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

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

	AED'000	AED'000
Consideration		
Total cash consideration (a)		317,244
Recognised amounts of identifiable intangible assets acquired		
	Book value	Fair Value
Property and equipment	9,092	19,209
Investment securities	54,320	34,320
Cash & cash equivalents	113,288	113,288
Net receivables	56,914	7,384
Value of identifiable net assets on acquisition - (b)	233,614	174,201
Fair value of identifiable net assets acquired : (b x 79.23%) - (c)		138,023
Intangibles :		
Customer relationships		12,835
Licenses		65,604
Total Intangibles (Note 10) - (d)		78,439
Provisional goodwill (Note 10) : (a) - (c) -(d)		100,782
 Cash consideration transferred		317,244
Cash & cash equivalents acquired		(113,288)
Net cash out flow on RAKNIC acquisition		203,956

The insurance business has reported an operating income of AED 3,339 thousand and net loss AED 9 thousand since 28 May 2015. The provisional goodwill acquired can be attributed to the well positioned business of RAKNIC which has an established franchise and reputation in UAE. RAKNIC has a sound management team and skilled workforce with strong sales and risk management skills. There are substantial synergies of the acquisition with the Bank which will be exploited in the future.

IFRS 3 'business combinations' allows initial accounting for a business combination to be determined only provisionally by the end of the period in which the business combination occurs. This initial accounting should be completed in a period not exceeding twelve months from the acquisition date. Hence, goodwill has been identified as provisional.