ANNUAL REPORT 2016

RAKBANK
Simply Better

RAKBANK at 40
Ready for new horizons

For 40 years, RAKBANK has delivered 'Simply Better' banking solutions to customers across the UAE. Having expanded and diversified our product and service offering, we are ready for new horizons.

Financial highlights 2016

AED millions	2012	2013	2014	2015	2016
Income Statement					
Interest Income	2,656	2,677	2,785	2,902	2,759
Interest Expenses	(351)	(248)	(207)	(224)	277
Income Islamic Financing	-	47	209	405	380
Islamic Profit Distribution	-	(11)	(30)	(35)	37
Net Interest Income	2,305	2,465	2,757	3,048	2,825
Net Fees and Commission Income	488	529	653	682	655
Foreign Exchange Income	68	75	87	95	107
Gross Insurance Underwriting Profit	-	-	-	38	55
Investment (Loss)/Income	0	41	6	(6)	126
Other Operating Income	32	40	52	82	71
Non-Interest Income	588	685	798	891	1,014
Total Income	**2,893**	**3,150**	**3,555**	**3,939**	**3,839**
Operating Expenditures	(1,281)	(1,379)	(1,505)	(1,479)	(1,369)
Operating Profit Before Provisions for Impairment	1,612	1,771	2,050	2,461	2,471
Provisions for Impairment	(209)	(341)	(595)	(1,055)	(1,808)
Net Profit	**1,403**	**1,431**	**1,455**	**1,405**	**663**
Balance Sheet					
Cash and Balances with the UAE Central Bank	2,904	3,622	4,217	4,908	4,431
Due from Other Banks	1,196	544	306	1,907	2,629
Net Loans and Advances	20,283	21,959	25,267	27,798	28,726
Investments Securities	1,587	2,696	3,785	4,115	4,811
Insurance Contract Assets and Receivables	-	-	-	300	341
Net Property and Equipment	1,036	1,029	938	898	873
Other assets	244	277	317	484	525
Goodwill and other intangible assets	-	-	-	177	174
Total Assets	**27,250**	**30,127**	**34,830**	**40,587**	**42,510**
Due to other banks	234	3	762	1,056	1,562
Due to customers	20,720	23,069	24,651	27,820	29,398
Debt Securities Issued/Subordinated Debt	-	-	1,668	2,865	2,730
Other liabilities	540	473	533	643	677
Provision for Employee's End of Service Benefits	61	66	85	96	97
Insurance Contract Liabilities and Payables	-	-	-	390	466
Total Liabilities	**21,555**	**23,611**	**27,699**	**32,870**	**34,930**
Key Indicators					
Return on Equity*	27.0%	23.4%	22.2%	19.3%	8.7%
Net Interest Margin	8.9%	8.6%	8.3%	8.0%	6.9%
Cost to Revenue	44.3%	43.8%	42.3%	37.5%	35.6%
Return On Assets*	5.4%	5.0%	4.4%	3.7%	1.6%
Coverage Ratio	62.8%	73.3%	87.1%	81.4%	84.3%
Gross Impaired Loans Ratio	2.5%	2.4%	2.4%	3.2%	4.2%
Lending to Stable Resources Ratio	90.3%	88.1%	88.2%	83.3%	85.5%
Liquid Asset Ratio	20.0%	19.8%	20.0%	19.1%	16.9%
Capital Adequacy Ratio*	24.3%	26.0%	23.9%	22.3%	21.8%
Tier One	24.3%	26.0%	23.9%	22.3%	21.8%

* Capital Adequacy Ratio is excluding profit for the year

ANNUAL REPORT 2016

40 year anniversary highlights

2,055
Employees

38
UAE branches

288
UAE ATMs

Present in Emirates 6

RAKBANK has built a solid foundation by focusing on customer satisfaction, service excellence, and product diversity. The key to our successful 40-year track record has been our ongoing ability to adapt to changing market trends, providing customers with a dynamic range of banking solutions.

TOTAL ASSETS
42.5
AED billion

TOTAL LIABILITIES
34.9
AED billion

TOTAL LOANS AND ADVANCES
28.7
AED billion

30%
annual cash dividend

8 new products and services in 2016

517,421
Individual customers

74,646
Business customers

His Highness Sheikh Khalifa Bin Zayed Al Nahyan
President of the United Arab Emirates

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

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

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Bank profile

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

After further restructuring in 2016, our core business segments are now Personal Banking, Business Banking, Wholesale Banking, Treasury and Insurance. We offer a wide range of services to individual and business customers across the UAE via our Branches, Phone Banking and Digital Banking solutions. We also provide a range of Sharia-compliant products and services through our integrated Islamic Banking unit. In 2016 we expanded our range of retail remittance services, as well as insurance products provided by RAK Insurance, in which we own a majority stake. These initiatives form an important part of our strategy for innovation and diversification.

Since 2001, RAKBANK has built strong foundations that have delivered several years of sustained growth. Headquartered in the Emirate of Ras Al Khaimah, we provide world-class products and industry-leading customer service to individuals and businesses across the Emirates. RAKBANK is a public joint stock company with shares traded on the Abu Dhabi Securities Exchange (ADX) and comprises of five subsidiaries, collectively known as "the Group".

We focus on maximising shareholder and asset value by building long-term relationships with our customers, employees and communities. Our culture is firmly built on transparency, accountability and service excellence.

Vision

To offer 'Simply Better' banking solutions for all our customers across the UAE

Mission

We aim to be a leading customer-focused bank in the UAE, offering convenient access to innovative and competitive financial products across multiple channels to individuals and businesses

Chairman's statement

On behalf of the Board of Directors, I am pleased to present the Audited Financial Statements of RAKBANK ("the Bank") and its subsidiaries (collectively known as "the Group") for the year ended 31 December 2016. While 2016 was a challenging year, we made significant progress in the implementation of our three year strategy, particularly in regard to diversification. This has put us in a strong position for the medium and long term future.

Our performance

Net Profit in 2016 amounted to AED 663.0 million, a drop from the previous year. A prominent challenge was presented by a significant increase in provisions, as our legacy RakFinance portfolio and SME-related Personal Banking lending experienced greater levels of stress.

Operating profit before provision for impairment fared better, maintaining the same levels as in 2015. Net Interest Income and Net income from Islamic financing dropped by 7.3% as a result of challenges in the SME sector, but this was offset by a significant improvement in non-interest income and cost reduction measures, which were put in place in the first quarter.

Gross Loans and Advances grew by 4.3% over the previous year to AED 29.8 billion. This growth was achieved through the realignment of our portfolios in line with our strategy to diversify the Bank's lending business. Wholesale Banking Loans and Advances grew by 124.2% to AED 4.5 billion, while Business Banking lending (SME) declined by 10.3% and Personal Banking lending declined by 2.1%. After obtaining approval from the Central Bank of the UAE, the Board has proposed a dividend of 30 fils per share.

Our economic environment

The operating environment of 2016 was a challenging one. A range of global and regional economic setbacks affected the SME sector, an important foothold for RAKBANK during the last ten years. As the UAE's largest SME lender, and with Personal Banking lending focused on the owners or employees of small businesses, the impact of business closures and cost reduction exercises by companies was felt in our Personal Banking portfolio.

Our strategy

Since 2014 we have been clear about the importance of diversification for achieving long term sustainability for our earnings. In 2016, we continued on this journey by developing three distinct business segments - Personal Banking, Business Banking, and Wholesale Banking. As part of that process, we made significant changes to our Treasury capability, to support the growth of these units. At the same time, we continued to refresh and expand our range of products and services in both the Conventional and Islamic Banking space. Our new home lending solution, 'Home in One', is widely considered to be the most innovative product in the UAE banking industry for many years, and in December we launched 'Fawrun' - an exciting new Islamic fixed deposit product.

Our people

We believe that our most important assets are the people who make our growth path possible. These are our customers, employees, and shareholders. Our CSR initiatives also clearly recognise our responsibility to the local community. Our graduate trainee programme for UAE nationals gained significant traction in 2016, when it was formally launched under the IRTIQA brand. Amongst other initiatives, we sponsored five of our most promising Emirati staff to attend a leadership programme at Darden Business School, Virginia, USA.

Our future

Looking ahead, the challenges we foresee in 2017 make us ever more determined to maintain our diversification strategy. Our belief is that in the course of the year we will see improvements in the regional operating environment, and as our legacy businesses benefit so will growth in new areas, where we expect to achieve positive results.

"We made significant progress in the implementation of our three year strategy, particularly in regard to diversification."

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

H.E. Mohamed Omran Alshamsi
Chairman

BANK PROFILE

A journey of excellence

1976
National Bank of Ras Al Khaimah incorporates in the UAE

1978
Opening of first Ras Al Khaimah customer branch

1987
First branch computerised

1990
First ATM introduced

1996
Introduction of Corporate and Personal Banking segments

2001
Unveiling of new corporate identity: RAKBANK

2004
Launch of first RAKBANK MasterCard

2005
IPO on Abu Dhabi Securities Exchange

2008
Launch of chip-based debit card and online banking

2011
Launch of Mobile banking

2013
Introduction of Islamic Banking division: RAKIslamic

2015
Launch of RAKBANK World MasterCard credit card

2016
Launch of Home in One housing loan and RAKMo-neyTransfer remittance service

BANK PROFILE

Awards

L-R (top row):

Middle East Internet Banking Product of the Year

First Jewelry Co-brand Product

SME Bank of the Year

L-R (bottom row):

Most Outstanding Security Team of the Year

Best Branding/Marketing Campaign

Best Overall Website

Security Leader of the Middle East

L-R (top row):

Best Customer Feedback Implementation

Best Positive Sentiment

Best New Product & Product Improvement Award

L-R (bottom row):

Best Integrated Approach Award

Digital Pioneer

Best Overall Customer Experience Award

Best Internal Use of Digital Award

CEO's message

RAKBANK at 40: Ready for New Horizons

Since 2015 we have recognised the need to move away from the Bank's traditional legacy approach, achieving greater diversity in our balance sheet and income base to minimise the impact of difficulties in individual sectors. This process will be of critical importance as we embrace the challenges of the future, and set out towards new horizons.

Our revised strategy has focused on rebuilding the Wholesale Banking business and broadening our fee income base by growing capability in areas such as Treasury, FX, Insurance and Asset Management. We have also recognised that our Personal Banking services had become saturated with SME related lending, so have reaffirmed our commitment to small and medium sized businesses by accommodating their needs within our new Business Banking segment.

In the course of 2016 we took measures to improve the efficiency of our management structure, as well as identifying new areas for growth, for example in our home Emirate of Ras Al Khaimah, where there are clear opportunities to develop fresh revenue streams.

Performance in 2016

In 2016 the UAE's SME sector experienced challenges resulting from global and regional macroeconomic developments. As the country's leading SME lender we experienced a high level of exposure, with Group results impacted by higher provisions. These developments have clearly reinforced the rationale for our diversification strategy. While growth in new business areas did not negate bad debts in RAKBANK's legacy loan book, their lower risk profiles will be important for a broader income spread in the future.

Despite poor performances by certain segments, we made considerable progress in others. Our Wholesale business grew significantly, from just under AED 2 billion in 2015 to AED 4.5 billion at year end. We have revitalised our Treasury business, both in terms of personnel and the range of products and services offered. We also established Business Banking as a standalone division, allowing us to focus on building a sustainable segment with improved underwriting standards and run by people with an intimate understanding of the local commercial environment. This has facilitated a more focused approach by our Personal Banking unit, which had previously also handled SMEs. Risk management was another key focus area, and in 2016 we successfully established both CRO and CCO functions.

Outlook for 2017

We believe that provisions peaked in the third quarter of 2016 and that we will see a gradual improvement in the business environment as 2017 progresses. There will be macroeconomic challenges to face in the course of the year, and our new business mix, which includes lower margin and lower risk products, is likely to mean slower top line growth. However, we are firmly of the view that our strategy for a more diversified business is correct, and will be bolstered by continued refinement in our risk management framework. In the medium to long term, this

> "In the course of 2016 we took measures to improve the efficiency of our management structure, as well as identifying new areas for growth."

wider spread of products and services will lead to more consistent and sustainable results for the Bank. This is our new horizon.

On behalf of RAKBANK's management, I would like to thank His Highness Sheikh Saud Bin Saqr Al Qasimi, Ruler of Ras Al Khaimah and Member of the Supreme Council, the Government of Ras Al Khaimah, our Chairman, H.E. Mohamed Omran Alshamsi, and the Board of Directors for their support. I would also like to put on record my gratitude to our dedicated staff for their efforts in rising to the challenges of 2016.

Peter England
Chief Executive Officer

Strategy and KPIs

Our strategy for 2016 was to achieve a state of readiness for a new chapter in the Bank's history

A major strategic initiative in 2016 was the restructuring of our business segment framework

Our strategy for 2016 was to achieve a state of readiness for a new chapter in the Bank's history. For 40 years we have grown and diversified our product offering to better meet the requirements of our customers while building sustainable relationships with them. This process has been the essence of our 'Simply Better' slogan, which has become a key part of our identity. We have focused on laying foundations that will enable us to grow, while remaining true to our values of transparency, accountability and integrity.

Strengthening our core

In preparation for future growth, we used 2016 to focus on strengthening the Bank at its core. This was achieved by diversifying our services away from high risk businesses and sectors, while growing vital revenue streams, particularly from Wholesale Banking, which includes both Corporate lending and Financial Institutions lending. Personal Banking is our largest and most important segment, and we devoted considerable time and attention to ensuring its ongoing growth. From an operational perspective, we continued to build upon 2015's work to make RAKBANK a more cost-efficient and agile organisation. Our efforts to strengthen the position of the Bank have been rewarded by impressive growth in our Wholesale Banking portfolio, an improved Cost to Income Ratio and a healthy Capital Adequacy Ratio (CAR).

Restructuring our business

A major strategic initiative in 2016 was the restructuring of our business segment framework. Recognising the importance of the Bank in servicing the financing requirements of SMEs in the UAE, we created a standalone Business Banking division. This is designed to directly handle small and medium sized businesses, with a focus on Trade Finance and Working Capital – as well as our Rak Business Loan offering. We regard SMEs as key growth drivers for the local and regional economy, despite their greater susceptibility to economic challenges. We maintained our support for SMEs during the year, and will continue to do so in the year ahead. Our Wholesale segment is now exclusively focused on serving larger corporate and government-related entities.

Developing innovative products

We believe that product innovation drives customer acquisition and retention, positively affecting revenues. We therefore continued to deliver new products that set us apart from our competitors – and two in particular stood out in 2016. RAKMoneyTransfer experienced dramatic growth in take-up. By offering rates that are competitive with any of the leading exchange houses, on a channel available across our Digital Banking platforms, we made it possible to instantly transfer funds to India, Nepal and the Philippines. In 2017 we will be adding Bangladesh and Pakistan to our corridors.

Our second major success was Home in One, a first of its kind home loan facility in the GCC, offering customers competitive interest rates from 3.49% per year, while helping them to pay off their mortgage loan sooner than with a standard mortgage facility. This combined product brings together the customer's current account and mortgage loan, making it easy and flexible to manage with the potential for significant cost savings for our clients, depending on the account balance.

Enhancing technology

Technology is an asset that sets a bank apart from its competitors – and we are fully aware of its importance for the achievement of our long-term objectives. 2016 saw the implementation of our much-anticipated convergence project, in which we successfully merged our internet and mobile banking platforms to provide a seamless digital experience. From a front-end perspective, this is a significant achievement, and underlines our dedication to leveraging technology for the benefit of our most important stakeholders.

Within our own infrastructure, we invested in a major upgrade of our middleware, which will provide a solid foundation for the growth of our technology offering over the next five to six years. By strengthening the IT capacity and technology behind our operations, we have improved productivity while using less resource, thereby becoming more efficient and agile. This, in turn, leads to an improved customer experience, both at the front-end and behind the scenes.

Recognizing our responsibility to protect the financial interests of customers and shareholders, our Information Security team continued to work tirelessly to reinforce our defences against the world's growing cyber security threats.

Key Performance Indicators (KPIs)

We measure our performance against a clearly defined set of KPIs, aimed at ensuring operational efficiency, driving growth and enabling us to meet our strategic objectives.

We believe that product innovation drives customer acquisition and retention, positively affecting revenues

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

Business review

In 2016 we comprehensively restructured our business segments. The aim was to better meet the recent challenges of the regional economy and to provide a clearer focus on the needs of different customer profiles. The following review provides a summary of the activities of each business unit, along with a high level analysis of performance during the year.

Cost-to-Income ratio dropped to 35.6%

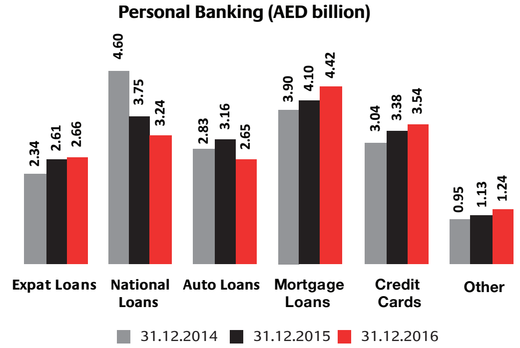
For the year ended 31 December 2016, RAKBANK recorded AED 663.0 million in Consolidated Net Profit, a decline of 52.8% on 2015. Total Operating Income decreased by AED 99.9 million, or 2.5% on a year-on-year basis. Operating Expenses decreased by AED 109.9 million. As the Group continued to focus on cost optimisation, the Cost-to-Income ratio dropped to 35.6% compared to 37.5% for the previous year.

Consolidated Operating Profit Before Provisions for Impairment grew by 0.4% to AED 2.5 billion year-on-year, while Gross Loans and Advances increased by AED 1.2 billion, driven mainly by the Wholesale Banking portfolio. This was partially offset by a reduction in our Business Banking and Personal Banking loan portfolios. Deposits for the year increased to AED 29.4 billion, compared to AED 27.8 billion in 2015. The Bank's Total Assets grew by 4.7% to AED 42.5 billion.

Personal Banking

Personal Banking services customers through a network of 38 branches and 288 ATMs – as well as via Phone and Digital Banking platforms. Sales are made across channels and via a network of sales agents. The segment's income is a mix of interest and fee-based income, from asset and liability products, sales of Bancassurance, investment products, foreign exchange services, debit cards, credit cards and prepaid cards. The Bank is placing a renewed focus on salaried and self-employed individual customers through an improved payroll and segmentation strategy. Personal Banking contributed to 52.0% of Operating Income (AED 2.0 billion), and gross loans declined by 2.1% to AED 17.7 billion. Launched in 2015, our Wealth Management department, also known as RAKelite, performed strongly throughout the year. The most important development in Personal Banking was the roll-out of our innovative new mortgage product, Home in One, which was exceptionally well received by the market. This home loan facility offers customers competitive interest rates from as low as 3.49% p.a., and is structured to allow them to pay off their loan sooner than with a standard mortgage facility.

Personal Banking (AED billion)

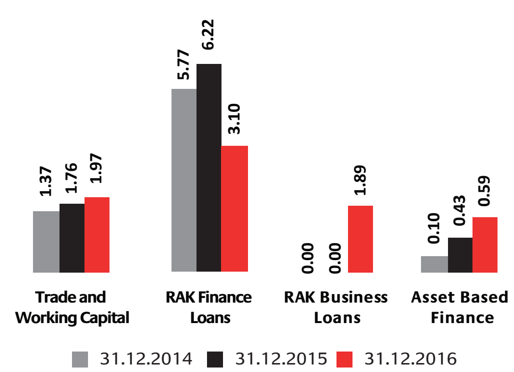


Business Banking

In the first quarter of 2016, we introduced a separate Business Banking segment. The aim is to provide a more holistic service for handling the asset and liability needs of SMEs, which were previously covered by Wholesale Banking and Personal Banking. As the largest SME lender in the UAE, RAKBANK is firmly committed to helping this segment grow, particularly in the light of current market conditions.

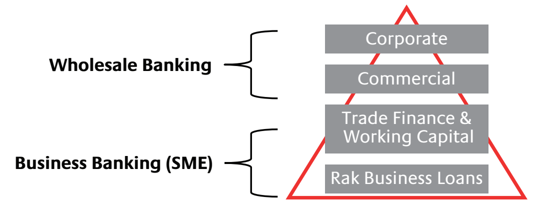
The new Business Banking segment contributed to 34.1% (AED 1.3 billion) of Operating Income in 2016 and 17.1% (AED 7.3 billion) of Assets as at 31 December. The Business Banking gross loan book amounted to AED 7.6 billion for the full year. We continued to support our SME customers through difficult times, with traditional SME finance, an increase in secured financing and a change in underwriting standards for unsecured loans. We also worked to consolidate a product range that had previously been spread across segments. The rationale for this was to reduce the duplication of activity across the Bank and offer customers a single window for their business finance requirements. RAKBANK now offers a wide range of products and services for SME customers in transaction banking and the SME financing space.

Business Banking (AED billion)

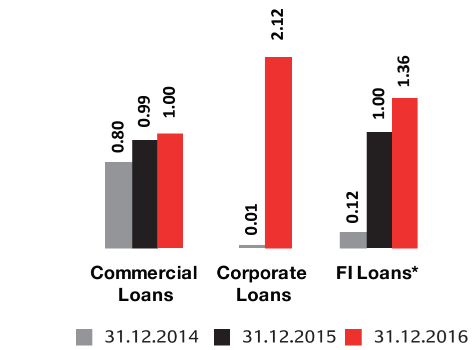


Wholesale Banking

We re-established our presence in the commercial sector in late 2013 and selectively re-entered the corporate lending sector in 2015. We introduced Wholesale Banking to increase our penetration into larger businesses and government-related entities by focusing on growing Corporate and Commercial lending, Trade Sales, Financial Institutions Lending, and Asset Based Finance. Following the creation of our standalone Business Banking segment, the Wholesale segment no longer covers Trade Finance and Working Capital for smaller businesses with turnover below AED 100m and smaller Asset Based Finance deals.



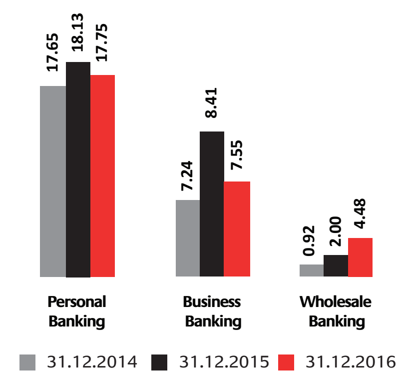
Wholesale Banking (AED billion)



*Excludes FI assets that amount to AED1,137 million not classified as loans and advances

Wholesale Banking contributed to 3.7% (AED 141.9 million) of Operating Income in 2016, accounting for 13.7% (AED 5.8 billion) of Assets. Loans grew by 124.2% to AED 4.5 billion as at 31 December, with year-on-year growth of AED 16 million for Commercial Loans, AED 351 million for Financial Institutions Loans, and AED 2.1 billion for Corporate Loans. Areas of focus during the year included strengthening relationships with Ras Al Khaimah's government and semi-government entities, leveraging access to HNWIs after the success of RAKelite and supporting in the expansion of corporate borrowing in Ras Al Khaimah.

Total Loans & Advances by Segment (AED billion)



Treasury

The principal activities of our Treasury business include money market activities, investments in debt and equity securities, foreign exchange transactions with other banks and financial institutions, including the UAE Central Bank. The Treasury segment is a custodian of the Bank's liquidity and plays a key role in supporting the growth of our Personal, Business and Wholesale segments. Treasury is responsible for raising funds through wholesale funding via capital markets, security repos and deposits from governmental agencies, which are key components of the Bank's Contingency Funding Plan.

In 2016 the Treasury business transformed from a support function within the Bank to a major revenue contributor. Treasury is divided into two vertical functions:

- Trading: including Balance Sheet management for the Bank and own account trading across various credit, interest rate and FOREX products
- Sales: providing plain and structured product solutions to customers for their hedging needs across credit, interest rates, FOREX, and commodities such as gold

Treasury contributed AED 249.9 million in operating profit for the year, against AED 170.8 million for the previous year. As a result, Treasury's contribution increased to 37.7% of the Bank's bottom-line in 2016, up from 12.2% in 2015. Treasury's total assets under management stood at AED 9.5 billion as at 31 December 2016, which is 22.4% of Bank's total assets. Treasury deposits amounted to 6.3% of the Bank's total deposit value.

In 2016, we distributed more than 36,000 policies

Insurance

The new set of regulations within the Insurance industry that lead to compulsory insurance in some segments for the increasing expatriate population, and a rising middle class segment, in the UAE created strong growth potential with modest risk. In acquiring a controlling stake (79.23%) in RAK Insurance in 2015, we identified a clear opportunity for growing the Bank's business and product offering by diversifying into the UAE insurance market. We have since collaborated closely in developing and selling life, health and general insurance products that will enhance our customers' lifecycle value proposition, our revenue and our market share.

Strong digital operations and a rich customer experience will be ongoing strategic themes across the industry for some time. RAK Insurance recently implemented its new 'Eska Insures' programme, to enhance product innovation, core business expertise and integrated service and support systems to meet the expectations of customers. Meanwhile, RAKBANK's own Bancassurance business is an industry leader in the UAE.

In 2016, we distributed more than 36,000 policies with total premiums in excess of AED 449 million to Personal and Business Banking customers. RAKBANK's growing Insurance offering contributed to 1.7% of Operating Income (AED 64.3 million) in 2016, and is a segment that we will continue to develop in 2017.

STRATEGIC REVIEW

Service excellence

We enhanced the complaint resolution turnaround time (TAT) to 3.8 days for 2016

For our customer benchmarking survey for 2016, we achieved an overall score of 91.4%

RAKBANK has a reputation for high quality service and we are proud of our continuous efforts to attain standards that meet – and exceed – our customers' expectations. We listen carefully to their feedback and opinions, taking both proactive and corrective actions to improve our service standards and deliver genuine levels of excellence. In line with this commitment, in 2016 we rebranded our Service Quality department to 'Service Excellence'. Our Voice of Customer programmes increased in reach and scale during the year, and were instrumental in enhancing the quality of our services, channels, and products.

Restructuring our operations

During the year we re-evaluated our customer service units. The aim was to improve the coherency of their work, ensuring a 360-degree view of customer opinion – and determining how concerns can be most effectively addressed. Our findings influenced the enhancements we have made to products, processes and procedures. Within the Service Excellence Unit (SEU), the Complaints Handling Unit handles complaints while the Customer Engagement Unit handles the Voice of Customer programmes, as well as the monitoring of our Service Levels. In addition, we now employ a Business Review team to receive and analyse the feedback customers provide. These findings are translated into action plans for all business segments, so that changes and improvements can be implemented more swiftly.

In Q2 of 2016, we partnered with two external organisations: the Department of Economic Development and Ethos Consultancy, to support and improve our mystery shopping and customer benchmarking activities. We were also evaluated by – and became members of – the Dubai Service Excellence Scheme (DSES), to help us more closely align our measurement activities at branches with industry best practice.

Measuring success

Having restructured our activities and worked hard to improve our Service Excellence, we were delighted to record clear and quantifiable improvements. We achieved a notable improvement in complaint resolution turnaround time (TAT) achieving 3.8 days for 2016 against the earlier TAT of 4.18 days in 2015, and we delivered an average TAT of 2.9 days for all the Central Bank complaints against an earlier TAT of 6.4 days in 2015. For our customer benchmarking survey for 2016, we achieved an overall score of 91.4% and an average score of 89% in our Mystery Shopping activity with DSES. We look forward to further improvements in 2017. We also started developing an automated survey system for our Voice of Customer programme, which will deliver real-time feedback and suggestions from customers across all segments, after every interaction. This will be an important tool in our work towards improving service across the Bank – and achieving consistent scores above 90%.

Having achieved the ISO 9001:2015 version last year – and as the first UAE bank to be awarded the certification – 2016 proved to be an important year for us: ensuring that all findings had been fully implemented, with ISO standards clearly demonstrated in our branches. We worked closely with all our Branches and Contact Centre teams to prepare them for an initial audit in Q3. With the audit complete, we are now addressing any identified gaps to ensure strict compliance with international best practice standards.

Looking ahead

Our strategic aims for 2017 are focused on continued improvement to the strong framework we established in 2016. We will continue to reduce complaints by improving customer service and speed of end-to-end resolution. First Contact Point Resolution is another important project for setting ever-higher standards for our front office staff, and enhancing the customer experience more broadly. We also plan to introduce customer experience maps for all new products and services, ensuring that higher service standards are embedded at every touch point. Service Excellence lies at the heart of our business culture; as we look ahead to new horizons, it remains an integral part of our strategy for growth and determination to create stakeholder value.

Investing in people

Young and ambitious Emirati staff are increasingly important to the Bank's development

Our people are the heart of all we do. Without their growth and development, we cannot expect the same for the Bank. From the branch floor to the executive office, our employees show dedication, ambition and a desire to deliver on our stakeholders' expectations. This culture drives us forward, and we are committed to motivating and retaining them by providing opportunities for career progression and development. At a corporate level, our Human Resources team are responsible for meeting the Bank's commitment to supporting the UAE economy through encouraging and nurturing local talent.

Improving efficiency

In 2016 we restructured our HR operations, to help us better utilise our resources and define roles and functions more clearly. This process included the creation of a full-fledged and dedicated Talent, Learning and Development function. In some instances, our people were redeployed across divisions to make better use of our existing talent. In cases where redundancies for outsourced employees were unavoidable, our HR team made exceptional efforts to introduce staff to some of the best recruiters and potential employers based in the UAE.

Nurturing local talent

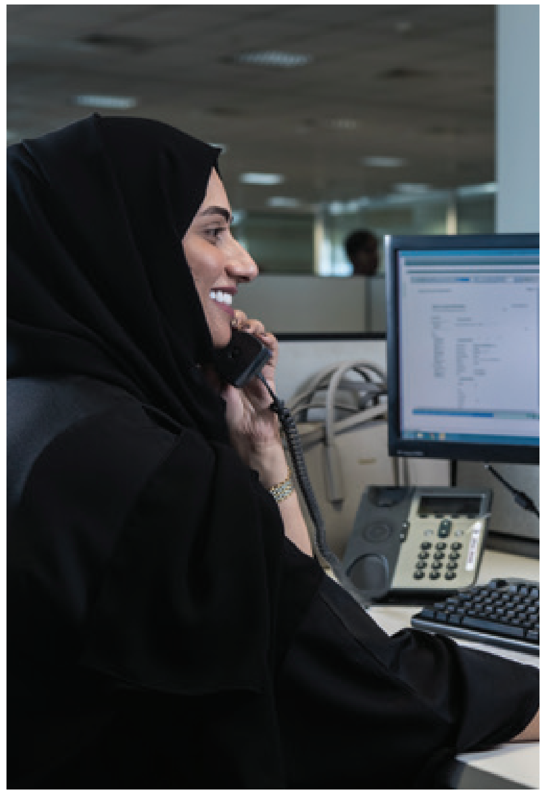
Following the launch of our Management Associate Programme for Emirati graduates (IRTIQA), we developed the Al Manara initiative, which will be rolled out across 2017, providing a bespoke talent management system for our Emirati employees. Designed to identify opportunities for local staff to progress within the Bank, it encourages them to improve their skills and reach new levels of success. The growing number of young and ambitious Emirati staff are increasingly important to the Bank's development, and our approach to expanding their role is to focus on career opportunities, rather than headcount alone.

We also offer a series of student financing and scholarship opportunities to Emirati undergraduates, enabling them to pursue their studies and develop their skills before embarking on a career. They are the future of the UAE – and we recognise our responsibility to help them realise their potential.

Training, development and incentivization

Having launched a dedicated Talent, Learning and Development function in 2016, we place a strong emphasis on providing new opportunities for staff to improve their skills. We increased the amount of on-the-job training available across business units, and provided additional opportunities for classroom and e-learning, which now account for some 10% of our total training portfolio. Where appropriate, we work with third party organisations to deliver courses on a range of subjects from credit review to internal audit. Partners in 2016 included Moody's (credit), Control Risks (risk), and the Emirates Institute of Banking and Financial Studies (EIBFS), with whom we offer graduate training. Our New Entrant Training Programme (NETP) is now managed exclusively by RAKBANK's Head of Talent, Learning and Development, and has become more efficient and effective as a result.

We attract, motivate and retain our people through a series of financial bonus and incentive programmes, as well as non-financial rewards.



Our people

As at 31 December 2016, RAKBANK employed 2,055 permanent staff alongside a number of subsidiary and outsourced employees. We are particularly proud of our gender balance, which at 56% male/44% female is favourable by the standards of both the banking industry and the wider UAE employment market. We are firmly committed to providing equal opportunities in the workplace, and do not discriminate by age, gender or nationality. We have a collaborative approach to managing our human resources, fostering a working environment that is consistent with the Bank's values of transparency, accountability, collaboration, and integrity.

Sustainability

Our sustainability model is built around three key pillars: Economic, Social and Environmental. These are supported by five commitments: Responsible Lending, Corporate Philanthropy, Community Support, Ethical Employment and Preservation of Natural Resources. RAKBANK has a firm belief that the long-term success of our business relies on the trust we earn from all our stakeholders, internal and external. We foster that trust by consistently delivering on the commitments we have made to the UAE economy, the communities in which we work and our natural environment.

Our sustainability model is built around three key pillars: Economic, Social and Environmental

Economic sustainability

RAKBANK recognises its duty to nurture local talent. In 2016 we became the exclusive banking partner of the Entrepreneur Organization (EO) UAE. The alliance allows members of the Bank and EO to interact and share best practice at local forums. In October we ran an 'In the Boardroom' workshop, attended by our CEO. RAKBANK and EO team members received insights on the UAE economy and discussed the challenges faced by local SMEs – our most important business segment.

In line with our commitment to developing the capacity of the local workforce, we launched IRTIQA, our two year Management Associate Programme. The scheme is for recent Emirati graduates and comprises of an interactive learning programme that defines and shapes their skills for a career in banking. Our IRTIQA associates will undergo rigorous training across the Bank's main functions, including Retail, Credit and Business Support.

In September we sponsored the 'Young Global Leaders Debate', which took place in Ras Al Khaimah. The event aims to encourage and support a diverse economy for innovative entrepreneurs, and took place under the patronage of the Emirate's ruler, HH Sheikh Saud bin Saqr Al Qasimi. Our Director of Islamic Banking, Abdul Karim Juma, and Head of Emiratisation, Sultan Al Ali, both participated in a panel discussion titled 'Leadership, youth and entrepreneurship'.

Social sustainability

RAKBANK believes in 'giving back' to the community. We encourage our staff to participate in a range of volunteering activities, supporting noble charitable and philanthropic causes. Our most successful programme in 2016 was the INDIMAJ initiative, which provides work experience at the Bank for young people with special needs. This year we hosted five students. Anupam Dasgupta, from Al Noor Centre, performed particularly well, and has since joined the team on the recommendation of his in-house mentors.

Other initiatives included the 7Emirates Run, in which employees participated in support of the Al Jalila Foundation for children with disabilities. We also ran our regular Water for Workers scheme, in which team members visit local construction sites and provide refreshments to workers. This initiative is particularly popular, because it offers the Bank's staff and construction workers a chance to interact, while providing us with an opportunity to thank the people who are building the future of the UAE.

We have a keen interest in promoting the health and wellbeing of our staff. This year our team participated in three Beach Runs located in Dubai, Abu Dhabi and Ras Al Khaimah. Whole families turned out to run and enjoy the benefits of an active outdoor lifestyle. Our Staff Wellness Week enjoyed another successful year, offering blood pressure and diabetes checks, as well as workplace yoga sessions, among other activities. In December 2016, the RAKIslamic team ran our ninth blood donation drive at the Dubai Silicon Oasis office, in partnership with Latifa Hospital.

The event was another great success, giving staff the opportunity to donate healthy blood for use by healthcare and emergency services.

Environmental sustainability

The natural environment in which we live and work is just as important as our economy and our community. In 2016 we continued our annual Cycle to Work initiative, encouraging employees at all levels to take note of their carbon footprint, and – where possible – take steps to reduce it.

The UAE is blessed with a unique ecosystem; among its most iconic native species is the Ghaf tree. This year we teamed up with Goumbook on their Give a Ghaf initiative, which aims to protect the future of one of the desert's most important trees. Over 30 volunteers from several of RAKBANK's business units contributed to the programme by relocating more than 6,000 pots of soil to accommodate Ghaf trees that will be donated to public parks, schools and other environments across the UAE. With the Ghaf tree in decline across the country, the initiative will be instrumental in protecting its aesthetic, cultural and ecological importance.

RAKBANK maintained its sponsorship of Wildlife Middle East, which conducts research and conservation projects in our home Emirate of Ras Al Khaimah. We also regularly update our environmental strategy by committing to initiatives such as paper recycling, a ban on plastic utensils, and the use of motion sensor LED lighting across our office space.

Board of Directors

H.E. MOHAMED OMRAN ALSHAMSI, CHAIRMAN

H.E. Mohamed Omran Alshamsi has 35 years of experience with Etisalat, retiring as Chief Executive Officer and Chairman in 2012. He is currently a member of the Board of Emirates Foundation, a member of the Board of Governors of Khalifa University and Chairman of the Board of Directors for Ras Al Khaimah Properties Company. He is Chairman and Chancellor of the Higher Colleges of Technology, with status of Minister.

Committee membership: Nomination & Remuneration Committee

H.E. ENGINEER SHEIKH SALEM AL QASIMI DIRECTOR

H.E. Sheikh Salem Al Qasimi is a member of the Executive Council of the Government of Ras Al Khaimah. He is also Chairman of the RAK Department of Civil Aviation, a member of the General Civil Aviation Authority, founder and Chairman of the UAE Fencing Federation, and Chairman of Ras Al Khaimah National Travel Agency (RANTA).

Committee memberships: Nomination & Remuneration Committee, Audit Committee, Risk Committee

MR. AHMAD ABDUL KARIM JULFAR DIRECTOR

Mr. Ahmad Abdul Karim Julfar has 30 years of experience with Etisalat UAE, most recently holding the role of Chief Executive Officer. He has held a range of senior positions including Chairman of the Board of Directors for Thuraya Group and Etisalat Services Holding, as well as Deputy Chair of the GSM Association. Mr. Ahmad was named Telecom Leader of the Year in 2014 by the Mobile World Congress and CEO of the Year (Telecom) 2013 by CEO Middle East. He holds a BSc in Civil Engineering and Computer Science from Gonzaga University and is a graduate of the Mohammed Bin Rashid Programme for Leadership Development.

Committee memberships: Strategy Committee, Audit Committee, Risk Committee

MR. AHMED ESSA AL NAEEM DIRECTOR

Mr. Ahmed Essa Al Naeem has 39 years of experience with the Ras Al Khaimah government. He is the former General Manager of RAK National Oil Company and RAK Gas Commission. He is also a former member of the Ras Al Khaimah Municipal Council and of the Ras Al Khaimah Chamber of Commerce, Industry, and Agriculture and has held additional posts in a number of ministries. Mr. Al Naeem is currently Chairman of RAK Trade Centre and Al Naeem Mall, Vice Chairman of United Insurance Company, Vice Chairman of RAK Insurance, and Director of Gulf Pharmaceutical Industries (Julphar).

MR. ALLAN GRIFFITHS DIRECTOR

Mr. Allan Griffiths has over 40 years of experience in banking, financial services, and insurance. Mr Griffiths was the Chief Executive Officer of AVIVA Australia for the period 2003-2009 and served on various AVIVA country boards. After the sale of the AVIVA Australia business he was appointed as the Managing Director of South East Asia with AVIVA Asia Pte Ltd. Mr. Griffiths is currently on the Board of Care Australia, Cloud 8 Health Pte Ltd, IOOF Holdings Pty Ltd, and four Westpac Banking Group Insurance boards.

Committee membership: Risk Committee

MR. RAJAN KHETARPAL DIRECTOR

Mr. Rajan Khetarpal has 36 years of banking experience with Indian and UAE Banks in Corporate and Commercial Banking, Project Finance, Debt Capital Markets, and Risk Management. Mr. Khetarpal was Deputy General Manager and Head Global Debt Capital Markets in Emirates NBD and later the bank's General Manager of Risk. Mr. Khetarpal was also the Chief Integration Officer and CEO Designate for Emirates NBD Egypt.

Committee memberships: Credit Committee, Strategy Committee

MR. SALEM ALI AL SHARHAN DIRECTOR

Mr. Salem Al Sharhan spent 23 years at Etisalat in various positions and is the telecom company's former Group Chief Financial Officer. He has served as an advisor to His Highness Sheikh Saud bin Saqr Al Qasimi, Member of the Supreme Council and Ruler of Ras Al Khaimah. Mr. Salem is currently a Board Member of the Dubai International Financial Centre Authority, a Board Member of Trustees of American University of Ras Al Khaimah, and the Chairman of RAK Insurance.

Committee memberships: Credit Committee, Strategy Committee, Audit Committee

Executive management

GOVERNANCE

L-R:

Vikas Suri
Managing Director, Treasury

Mahadevan Radhakanthan
Chief Credit Officer

L-R:

Saleh Ali Saleh
Director, RAK Business

Peter England
Chief Executive Officer

L-R:

Susan Gardner
Director, Group Human Resources

K.S. Ramakrishnan
Chief Risk Officer

Rahul Oberoi
Managing Director, Wholesale Banking

Dhiraj Kunwar
Managing Director, Business Banking

L-R:

Geoff Stecyk
Chief Operating Officer

Abdul Karim Juma
Director, Islamic Banking

Deepak Majithia
Chief Financial Officer

Committees

Board Committees

The Board of Directors has the role of regularly reviewing the Bank's financial performance, as well as the performance of individual business areas. The Board's committee agenda typically includes:

- Strategy and risk management, market trends and developments, and new business opportunities
- Implications of developments in international sanctions, compliance and Central Bank regulations
- Enhancements in governance structures and processes

Executive Management Committees

The Bank runs five Executive Management Committees, attended by the Chief Executive Officer along with relevant business and departmental heads. All Executive Management Committees sit monthly, with the exception of the Business Continuity Management (BCM) Committee, which sits on a quarterly basis.

Management Committee

- Management Assets & Liabilities Committee
- Management Executive Committee
- Management Risk Committee
- Information Technology Steering Committee
- Management Credit Committee

Board Committee	Description	Frequency	No. of Meetings Held & Dates	Attendees
Credit Committee	Provides oversight of the risk management framework for controlling credit risk arising from the businesses undertaken by the Bank's Personal Banking, Small and Medium Enterprises and Commercial Banking units; Reviews Credit Policies and Product Programs that govern the Credit portfolios, and also approves credit facilities in accordance with laid down credit authority; Reviews and approves Credit grading methodology for the Bank.	Weekly	34 meetings held in 2016	Salem Ali Al Sharhan (Chairman) Rajan Khetarpal
Strategy Committee*	Review the developments and trends shaping the future of the industry to align the Bank's strategy and positioning, accordingly and review the Bank's three year strategic plan. Reviews and approves strategic proposals relating to the expansion of the business in terms of organic growth and/or acquisitions, distribution, and new lines of business.	Quarterly	2 meetings held in 2016. 2 November & 14 December 2016	Ahmad Abdul Karim Julfar (Chairman) Salem Ali Al Sharhan Rajan Khetarpal
Nomination & Remuneration Committee	Reviews the structure, size, composition, and performance of the Bank's Board Develops and sets the Bank's remuneration framework covering the Board members, CEO, management and staff; Reviews and approves the Bank's policy on staff grading and the remuneration structure.	Half yearly	2 meetings held in 2016. 17 April & 21 December 2016	H.E. Mohamed Omran Alshamsi (Chairman) H.E. Sh. Salem bin Sultan Al Qasimi
Audit Committee	Oversees, monitors and reviews financial statements and accounting policies, functioning of internal audit, and the relationship with external auditors for the Bank and its subsidiary companies; Receives and reviews regulatory inspection reports from UAE Central Bank and such other regulators.	Quarterly	6 meetings held in 2016 1 Feb, 10 April, 24 August, 27 September, 27 October, 15 December	H.E. Sh. Salem bin Sultan Al Qasimi (Chairman) Salem Ali Al Sharhan Ahmad Abdul Karim Julfar
Risk Committee	Oversees the Bank's risk management framework specifically relating to Market Risk, Liquidity Risk, Credit Portfolio Risk, Operational Risk, Compliance and Internal Control, IT and Information Security and Legal Risks including the significant policies and practices used in managing these risks for the Bank and its subsidiaries.	Quarterly	4 meetings held in 2016. 3 February, 19 April, 25 September and 20 December 2016	H.E. Sh. Salem bin Sultan Al Qasimi (Chairman) Ahmad Abdul Karim Julfar Allan Griffiths

* Board Strategy Committee reintroduced in November 2016

Islamic Banking governance

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

The IBD offers Sharia compliant financial solutions to Individual, SME and Corporate customers. RAKBANK IBD and RAKIFC are regulated by the Central Bank of the UAE and supervised by an independent Fatwa and Sharia Supervisory Board (FSSB). The Bank has undertaken a range of measures to continually enhance governance of its Islamic Business to ensure complete Sharia compliance.

The Bank has undertaken a range of measures to continually enhance governance of its Islamic Business

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

Our Islamic Banking business operates in accordance with Islamic Financial Services Board (IFSB) standards and guidelines, as laid out by the Accounting & Auditing Organisation for Islamic Financial Institutions (AAOIFI). The Bank works with Dar Al Sharia Legal (DAS) and Financial Consultancy Company for day-to-day support and assistance on Sharia-related matters between RAKBANK, RAKIFC and FSSB.

DAS conducts regular audits to ensure compliance with Sharia regulations. Fatwas (Sharia pronouncements) are issued by the FSSB for all products and services to certify compliance with the principles of Sharia, which include approving the product structure, the underlying Islamic contract, legal documentation, operational process flow and all associated product literature. The product Fatwas issued by the FSSB are published on our website and displayed at RAKBANK branches. To ensure transparency and a clear distinction between our conventional and Islamic Business, we maintain separate sets of product specific Terms & Conditions, legal documentation, application forms, and service and price guides. A separate tariff board is displayed at branches and all transaction documentation has Islamic features embedded.

The Bank's Treasury segment manages Islamic liquidity and asset liability funding distinctly for IBD and RAKIFC.

RAKBANK
RAKislamic
الخدمات المصرفية الإسلامية

Risk management

The Bank's Board & Management believe that an effective risk department is vital to achieving RAKBANK's strategic growth objectives in a sustainable manner. The Board Risk Committee endorses the Bank's overall risk management strategy and appetite providing the necessary direction concerning risk management measures undertaken by the Bank. Executive accountability for continuous assessment, monitoring and management of the risk environment and efficacy of risk management procedures reside with executive level committees (Management Risk Committee and Management Credit Committee). During the year, various risk functions were centralised under an independent risk function headed by the Chief Risk Officer (CRO), providing further impetus to the Bank's risk management strategy and governance.

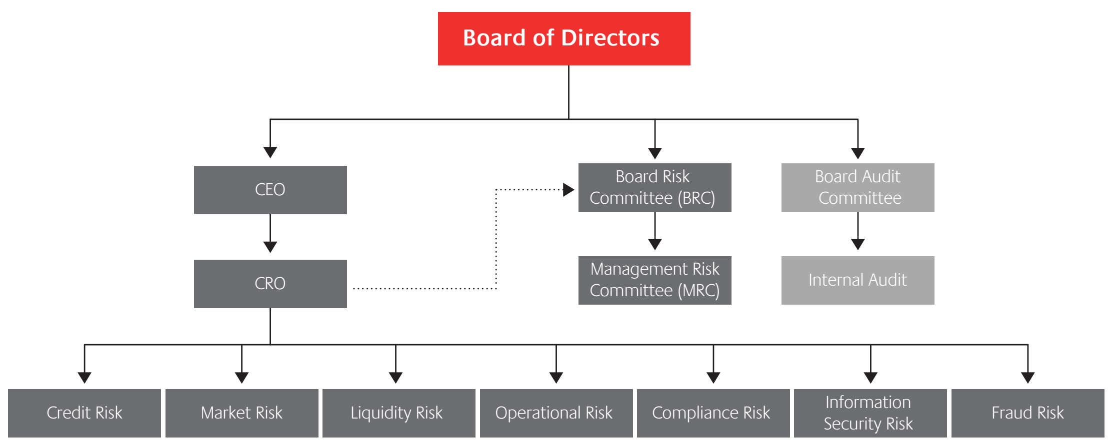
Credit risk

The Bank has centralised the credit management functions of both the Retail and Wholesale lending businesses, independent of the Operations and Business departments. The Bank has implemented appropriate policies, procedures and systems for the Retail and Wholesale lending businesses to ensure credit exposure is accepted prudently.

In the case of the Retail lending business, credit risk is managed through appropriate front-end sales and credit underwriting processes, and back-end operational and collection processes. Appropriate product programmes defining customer segments, underwriting standards and security requirements are rolled out to ensure consistency in underwriting and the on-boarding process. The Retail credit portfolio is monitored centrally across products and customer segments. For Wholesale exposures, credit risk is managed by appropriately identifying target market segments, structured credit approval processes and robust post-disbursement monitoring and remedial processes.

The Board Credit Committee oversees credit management measures including portfolio, sectoral and customer level review as well as quality of assets and health of large borrower accounts and borrower groups. The executive level Management Credit Committee reviews major credit portfolios, non-performing loans, accounts under watch, overdue and credit sanctions.

Risk Governance Structure



GOVERNANCE

Market risk

Market risk and Treasury mid-office functions have been established independently of the Treasury front-office, for effective risk management and control under the leadership of the CRO. The governance framework for market risk includes internal Board-approved market risk policy and actively tracked market risk limits, in line with extant regulations and internal policies. Risk is undertaken in the book within the limits of the investment and trading policies of the Bank and overall risk appetite. Market risk policy ensures that all limit breaches, concentration and other relevant risks are reported to Management and the Board on a timely basis.

Liquidity risk

Liquidity risk is managed by Treasury under the guidance of the Asset and Liability Committee (ALCO) and in accordance with UAE Central Bank regulations and the Bank's internal guidelines. Treasury has established a formal and robust liquidity risk management framework that ensures sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events. The Bank monitors its liquidity ratios on a daily basis and has set up internal management action triggers to take suitable action when required. In addition, liquidity stress testing and scenario analysis are key tools used by the Bank for measuring liquidity risk and evaluating the Bank's short-term liquidity position.

Operational risk

A dedicated Operational Risk Management (ORM) team, within the Risk Management Department, is responsible for setting out the ORM framework and policy for the Bank, under the guidance of the Management Risk Committee and the CRO. The team ensures that the ORM framework, policy and processes are consistent with the risk profile of the Bank and wider regulatory requirements.

During 2016, the Bank reviewed and strengthened the ORM framework, mindful of changes in the risk and regulatory landscape. The framework incorporates a revised methodology for identification, assessment, monitoring and mitigation of operational risks, which will be implemented in accordance with a phased approach.

Compliance risk

Regulatory compliance continues to be an important area of focus for the Bank's Board and Management. The Bank continues to maintain a zero tolerance approach with respect to any regulatory breach. An independent Compliance function within the Risk Management Department oversees the compliance risk management framework and procedures across the Bank. The Compliance function is also responsible for actively mitigating Anti Money Laundering (AML) and sanctions risk, apart from reviewing the regulatory landscape and issuance of internal policies. The function is staffed by qualified professionals with workshops conducted at periodic intervals to maintain and enhance compliance discipline across the Bank. The Bank has made significant investments in surveillance technology and successfully implemented customer and name screening modules.

Information security risk

The Bank has established an independent Information Security (IS) function under the CRO. The IS team proactively monitors the cyber threat landscape and implements controls to mitigate relevant risk. The IS practices of the Bank are supported by a 24/7/365 Security Operations Centre to monitor and respond to information security threats. RAKBANK's IS team was recognised and awarded 'Most Outstanding Security Team in the UAE' at the Security Advisor Middle East Awards 2016 and 'Security Leader of the Middle East' at the Middle East Security Awards (MESA).

Fraud risk

The Bank's Management and Board recognise that proactive fraud risk management is a significant and integral part of the overall risk management strategy. The Bank is focusing on active identification, detection and response to fraud events. RAKBANK is currently in the process of implementing a state-of-the-art system for fraud risk management.

Directors' Report to the Shareholders

We are pleased to present the results of RAKBANK (the "Bank") and its subsidiaries (collectively known as the "Group") for the year ended 31 December 2016. Net Profit for the year amounted to AED 663 million, a decrease of AED 742 million over the previous year. Total Assets stood at AED 42.5 billion, an increase of 4.7% compared to 31 December 2015. Gross Loans and Advances closed at AED 29.8 billion, up by 4.3% over the previous year. The Return on Average Assets ratio closed at 1.6% and the Return on Average Equity was 8.7%.

Gross Loans and Advances are up by 4.3%

Financial performance

The decrease of AED 742 million in Net Profit was mainly due to an increase of AED 752.3 million in provision for impairment in loans. Total Operating Income decreased by 2.5%, while Operating Expenses decreased by AED 109.9 million, down by 7.4% over the previous year. Operating Expenses declined, mainly due to reductions in staff costs, outsourced staff costs and depreciation costs.

Operating Profit before impairment losses grew by AED 10 million over 2015. This was offset by an increase in provisions for loan impairment by 71.3% from the previous year, as a result of larger payment defaults in the unsecured loan products, Business Banking and Wholesale Banking segments. Total impairment provision for the year was AED 1.8 billion compared to AED 1.1 billion in 2015.

Operating costs decreased by 7.4%

The decline in Total Operating Income by AED 99.9 million to AED 3.8 billion was mainly due to a decrease of AED 223.2 million in Net Interest Income and income from Islamic finance net of distribution to depositors compared to the previous year. Net Interest Income and income from Islamic financing fell to AED 2.8 billion. Interest income from conventional loans and investments decreased by 4.9%, while interest costs on conventional deposits and borrowings rose by 23.7%. Net income from Sharia-compliant financing was down by AED 27.3 million.

Non-interest income grew by AED 123.3 million to AED 1.0 billion. This was mainly due to increases of AED 132.5 million in income from investments, AED 17.7 million in gross insurance underwriting profit and AED 12.3 million in foreign exchange and derivative income. This was offset by a decrease of AED 27.3 million in commission income and AED 11.9 million in other income compared to 2015.

Operating costs were down by AED 109.9 million, a decrease of 7.4% on 2015. This was mainly due to a decrease of AED 68.3 million in staff costs, AED 21.7 million in outsourced staff costs and AED 11.1 million in depreciation costs. The Group's cost to revenue ratio reduced to 35.6% compared to 37.5% for the previous year.

The non-performing loans and advances to gross loans and advances ratio closed at 4.2% compared to 3.2% in the previous year. Net credit losses to average loans and advances closed at 6.2% compared to 3.8% in 2015. The Group is well provisioned against loan losses, with a conservative loan loss coverage ratio of 84.3% compared to 81.4% at the end of the previous year. This coverage ratio does not take into consideration mortgaged properties and other realizable asset collateral available against the loans. Additionally, the Bank has a non-distributable regulatory credit risk reserve equal to 1.5% of its credit risk rated assets, amounting to AED 421 million. Together with this reserve, the provision coverage ratio would increase to 118%.

Total Assets rose by 4.7% to AED 42.5 billion compared to the end of 2015. This was due to an increase in Gross Loans and Advances of AED 1.2 billion, lending to banks - which grew by AED 722.4 million - and an increase in investments of AED 695.6 million. Wholesale Banking lending grew by 124.2%, up AED 2.5 billion from the previous year. Personal Banking's loan portfolio was down by AED 382 million and Business Banking's loan portfolio was down by AED 862.5 million compared to 31 December 2015.

Customer deposits grew by 5.7% to AED 29.4 billion compared to 2015. This growth came mainly from an increase of AED 1.1 billion in demand deposits and AED 455.4 million in time deposits.

During the year, the Group reclassified the investments carried in the 'held-to-maturity' portfolio (market value: AED 4.13 billion) into the 'available-for-sale' portfolio. The Group's investment portfolio grew by AED 695.6 million to AED 4.8 billion.

Before taking into consideration the profit for 2016 and any dividend, the Bank's Tier 1 ratio as per Basel II was 21.8% at the year-end. This compares with 22.3% at the end of 2015, against a requirement of 12% set by the UAE Central Bank. This level of capital provides the Bank with ample room for growth in 2017. The regulatory eligible liquid asset ratio at the end of the year was 16.9%, compared to 19.1% the previous year. The advances to stable resources ratio stood comfortably at 85.5% compared to 83.3% at the end of 2015.

Ratings

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

Rating Agency	Last Update	Deposits	Outlook
Moody's	October 2016	Baa1/P-2	Stable
Fitch	September 2016	BBB+/F2	Stable
Capital Intelligence	September 2016	A-/A2	Stable

Developments in 2016

- Created a standalone Business Banking Division, providing a dedicated and holistic service for SMEs
- Launched RAKMoneyTransfer remittance service for instant transfers to India and the Philippines
- Launched Home in One, an innovative new mortgage facility
- Successfully merged our internet and mobile banking platforms to deliver a seamless digital experience, called RAKBANK Beyond
- Expanded the range of products offered by RAK Insurance
- Rebranded, strengthened and scaled-up our customer service activities and programmes
- Launched new Talent Management and Learning and Development initiatives for our employees

Recognition in 2016

- Middle East Internet Banking Product of the Year for Web Authentication Chat at the Asian Banker Middle East Retail Product Awards
- SME Bank of the Year at the Arabian Business StartUp Awards
- 'First Launches in the Country' award for the launch of the Kalyan Jewellers co-branded credit card and MasterCard Titanium credit card at the MasterCard Customer Event
- Most Outstanding Security Team of the Year at the Security Advisor Middle East Awards
- Best Branding/Marketing Campaign for the launch of RAKelite at the Banker Middle East Awards
- Security Leader of the Middle East at the Middle East Security Awards (MESA)
- Best Overall Website Service Olympian Award from Ethos Integrated Solutions

GOVERNANCE

- Best Customer Feedback Implementation Service Olympian Award from Ethos Integrated Solutions
- Best Positive Sentiment Service Olympian Award from Ethos Integrated Solutions.
- Best New Products & Product Improvement Award for the Home in One mortgage facility at the Gulf Customer and Digital Experience Awards
- Best Integrated Approach Award for MobileCash card-less withdrawals at the Gulf Customer and Digital Experience Awards
- Best Internal Use of Digital Award for the Tablet Banking App at the Gulf Customer and Digital Experience Awards
- Digital Pioneer Award for Web Authentication Chat at the Gulf Customer and Digital Experience Awards
- Best Overall Customer Experience Award at the Gulf Customer and Digital Experience Awards

Outlook for 2017

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

For and on behalf of the Board of Directors

H.E. Mohamed Omran Alshamsi
Chairman

1 February 2017

Independent Auditor's Report

To the Shareholders
The National Bank of Ras Al-Khaimah (P.S.C.)
Ras Al-Khaimah
United Arab Emirates

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements 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") which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the other requirements relevant to our audit of the Group's consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Impairment against loans and advances

Risk	How the matter was addressed in our audit
We focused on this area because it requires management and those charged with governance to make significant judgements, such as the identification of loans that are deteriorating, the assessment of objective evidence of impairment, the assessment of the recoverable amount and the value of collateral. Due to the significance of net loans and advances (representing 68% of total assets) and the related estimation uncertainty, we consider this a key audit matter. The portfolios which give rise to the greatest uncertainty are typically those where impairments are derived from collective models, relate to unsecured exposures or are subject to potential collateral shortfalls. It is the judgements for collective provisioning which are the most significant as they are the most sensitive to adjustment. The two key judgements in the collective provisioning assessment are the likelihood of default and the emergence period and it is the earlier which is the single most critical judgement. The Bank's individual provisions are also subjective as a result of judgements needed and the relatively limited amount of data available for future cash flows. These loans are individually monitored and the assessment of individual provisions for these loan portfolios involves knowledge of each borrower. The key judgement for individual provisions on these portfolios is the recoverable value of underlying collateral.	Our audit procedures included the assessment of controls over the approval, recording and monitoring of loans, and evaluating the methodologies, inputs and assumptions used by the Bank in calculating collectively assessed impairments and assessing the adequacy of impairment allowances for individually assessed loans. We tested the design and operating effectiveness of relevant controls to determine which loans are impaired and allowances against those assets. These included testing: • System-based and manual controls over the timely recognition of impaired loans; • Controls over the impairment calculation models; and • Governance controls, including reviewing key meetings that form part of the approval process for loan impairment allowances. We tested a sample of loans to assess whether impairment events had been identified in a timely manner. In addition, we also focused on individually significant exposures. We tested the assumptions underlying the impairment identification and quantification including forecasts of future cash flows, valuation of underlying collateral and estimates of recovery on default.

Risk	How the matter was addressed in our audit
A management overlay is applied to the modelled provisioning balances to reflect risk factors not taken into account by the models. This requires judgement in relation to the factors to be reflected as well as their estimated value. Management also applies adjustments, or overlays, where they believe the data driven parameters and calculations are not appropriate, either due to emerging trends or models not capturing the risks in the loan portfolio. An example of this is an overlay for the concentration against certain borrowers which management apply on top of the impairment model output. These overlays require significant judgement.	We paid particular attention to collective impairment methodologies, focusing specifically on retail loans, either due to their relative size or the potential impact of changing inputs and assumptions. We also focused on portfolios that were potentially more sensitive to emerging economic trends.

Valuation of financial instruments

Risk	How the matter was addressed in our audit
Accounting for financial investments in accordance with IAS 39 'Financial Instruments' and IFRS 13 'Fair Value Measurement' can be complex and has a significant impact on measuring the Bank's objectives. Financial instruments valuation carry high risk, in particular unquoted and illiquid investments valuation due to: • Inherently a judgemental area for unquoted investments • Using inappropriate models to value investments • Using inappropriate assumptions to value investments • Depending on valuation models not fully supported by robust and objective evidence	Our audit procedures included • Testing the design and operating effectiveness of the relevant controls in the Banks's financial instrument valuation processes including the controls over data feeds and other inputs into valuation models and the controls over testing and approval of new models or changes to existing models; • Reviewing and testing internal controls related to valuation of financial instruments; • Reviewing valuations for stale prices that may not be indicative of fair value for quoted investments;

Risk	How the matter was addressed in our audit
• Reliability of prices that are being used for valuation Hedge accounting is a complex accounting topic in financial reporting due to • Methodology of designation, effectiveness testing, measuring of ineffectiveness and documentation; and • Valuation of hedging instruments considering value adjustments for counterparty, own credit and funding risk	• Reviewing specific investment valuation models for unquoted investments and assessing reasonableness of assumptions used in models; • Verifying market values of quoted investments (securities), comparing observable inputs against independent sources and externally available market data and evaluating compliance with IFRS 13 'Fair Value Measurement'; • Reviewing accounting policy for impairment for quoted debt and equity available-for-sale investments; • For instruments with significant, unobservable valuation inputs, we used our own internal valuation specialists to assess and challenge the valuation assumptions used, including considering alternative valuation methodologies used by other market participants; • Comparing the Bank's pricing approach to other major institutions; • Reviewing the Bank's policy for classification of valuations as level 1, 2 or 3 and other financial instruments disclosures. Reviewing risk management strategy and objectives; • We also critically assessed the adequacy of the Bank's disclosures including the accuracy of the fair value measurement categorisation and adequacy of the disclosure of the valuation techniques, significant unobservable inputs, changes in estimate occurring during the period and the sensitivity to the key assumptions; • Reviewing accounting for qualifying hedging relationships including hedge designation and effectiveness assessment; and • Ensuring proper disclosures in the consolidated finance statements

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Reliability and continuity of the information technology and systems

Risk	How the matter was addressed in our audit
Failure of not having appropriate IT systems and controls in place may lead to severe consequences on business continuance and the financial reporting process.	Our audit procedures included: • Reviewing major IT systems and applications; • Reviewing general computer controls for key IT systems; • Assessing IT security environment using our certified IT system auditors; and • Focused on key controls testing on significant IT systems relevant to business processes.

Other information

The Board of Directors is responsible for the other information. The other information comprises the annual report of the Group. We obtained the Board of Directors' report of the annual report prior to the date of this auditor's report, and the remaining information of the annual report is expected to be made available to us after that date. The other information does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance or conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and applicable provisions of the UAE Federal Law No. (2) of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtain sufficient appropriate audit evidence regarding the financial information of the subsidiaries of the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance

of the group audit. We remain solely responsible for our audit opinion

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on other legal and regulatory requirements

As required by the UAE Federal Law No. (2) of 2015, we report that:

i) We have obtained all the information we considered necessary for the purposes of our audit;
ii) The consolidated financial statements of the Bank have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
iii) The Group has maintained proper books of account;
iv) The financial information included in the Directors' report is consistent with the Group's books of account;
v) Note 7 to the consolidated financial statements of the Group discloses securities purchased or invested in shares during the financial year ended 31 December 2016;
vi) Note 34 to the consolidated financial statements of the Bank discloses material related party transactions, the terms under which they were conducted and principles of managing conflict of interests;
vii) Based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Bank has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or of its Articles of Association which would materially affect its activities or its financial position as at 31 December 2016; and
viii) Note 42 to the consolidated financial statements of the Bank discloses social contributions made during the financial year ended 31 December 2016

Further, as required by the UAE Union Law No (10) of 1980, as amended, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

Deloitte & Touche (M.E.)

Musa Ramahi
Registration No. 872
1 February 2017
Dubai - United Arab Emirates

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Consolidated Statement of Financial Position

	Notes	2016 AED'000	2015 AED'000
ASSETS			
Cash and balances with UAE Central Bank	4	4,431,016	4,908,196
Due from other banks	5	2,629,230	1,906,813
Loans and advances, net	6	28,725,869	27,798,096
Investment securities	7	4,810,682	4,115,072
Insurance contract assets and receivables	8	340,959	300,113
Other assets	9	525,488	484,284
Goodwill and other intangible assets	10	174,141	177,349
Property and equipment	11	872,844	897,450
Total assets		**42,510,229**	**40,587,373**
LIABILITIES AND EQUITY			
Liabilities			
Due to other banks	12	1,561,877	1,056,141
Deposits from customers	13	29,398,185	27,820,105
Debt securities in issue	14	2,730,072	2,864,727
Insurance contract liabilities and payables	15	465,826	389,783
Other liabilities	16	773,890	739,169
Total liabilities		**34,929,850**	**32,869,925**
Equity			
Share capital	17	1,676,245	1,676,245
Share premium	18	-	110,350
Legal reserve	18	950,431	839,590
Retained earnings		1,879,029	2,102,951
Other reserves	19	3,031,209	2,950,116
Equity attributable to owners of the Bank		7,536,914	7,679,252
Non-controlling interests	20	43,465	38,196
Total equity		**7,580,379**	**7,717,448**
Total Liabilities and Equity		**42,510,229**	**40,587,373**

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

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H.E. Mohamed Omran Alshamsi — Chairman

Peter William England — Chief Executive Officer

Consolidated Income Statement for the Year Ended 31 December 2016

	Notes	2016 AED'000	2015 AED'000
Interest income	21	2,758,874	2,901,754
Interest expense	21	(276,794)	(223,829)
Net interest income		2,482,080	2,677,925
Income from Islamic financing	22	379,776	405,287
Distribution to depositors	22	(36,755)	(34,917)
Net income from Islamic financing		**343,021**	**370,370**
Net interest income and net income from Islamic financing		2,825,101	3,048,295
Net fees and commission income	23	655,002	682,250
Foreign exchange and derivative income		107,150	94,894
Gross insurance underwriting profit	24	55,240	37,505
Investment income/(loss)	25	126,305	(6,168)
Other operating income		70,515	82,456
Non-interest income		**1,014,212**	**890,937**
Operating income		3,839,313	3,939,232
Operating expenses	26	(1,368,621)	(1,478,507)
Operating profit before provision for impairment		2,470,692	2,460,725
Provision for impairment of loans and advances, net	6(d)	(1,807,714)	(1,055,405)
Profit for the year		**662,978**	**1,405,320**
Attributed to:			
Owners of the Bank		659,542	1,400,387
Non-controlling interests		3,436	4,933
Profit for the year		**662,978**	**1,405,320**
Earnings per share:			
Basic and diluted in AED	27	0.39	0.84

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

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2016

	Notes	2016 AED'000	2015 AED'000
Profit for the year		662,978	1,405,320
Other comprehensive income/(loss) (Items that will be reclassified subsequently to profit or loss)			
Net changes in fair value of available-for-sale investment securities		39,577	(14,274)
Other comprehensive income/(loss) for the year		**39,577**	**(14,274)**
Total comprehensive income for the year		**702,555**	**1,391,046**
Attributed to:			
Owners of the Parent		696,144	1,389,029
Non-controlling interests		6,411	2,017
Total comprehensive income for the year		**702,555**	**1,391,046**

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

Consolidated Statement of Changes in Equity for the Year Ended 31 December 2016

	Share capital	Share premium	Legal reserve	Retained earnings	Other reserves	Equity attributable to owners of the Bank	Non-controlling interests	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Balance at 1 January 2015	1,676,245	110,350	839,590	1,784,065	2,720,871	7,131,121	-	7,131,121
Profit for the year	-	-	-	1,400,387	-	1,400,387	4,933	1,405,320
Other comprehensive loss	-	-	-	-	(11,358)	(11,358)	(2,916)	(14,274)
Total comprehensive income for the year	-	-	-	1,400,387	(11,358)	1,389,029	2,017	1,391,046
Zakat	-	-	-	(378)	-	(378)	-	(378)
Transfer to regulatory credit risk reserve	-	-	-	(43,000)	43,000	-	-	-
Treasury stock elimination	-	-	-	-	(2,397)	(2,397)	-	(2,397)
Non-controlling interest on RAKNIC acquisition	-	-	-	-	-	-	36,179	36,179
Transfer to credit risk reserve	-	-	-	(100,000)	100,000	-	-	-
Transfer to general banking reserve	-	-	-	(100,000)	100,000	-	-	-
Dividend paid	-	-	-	(838,123)	-	(838,123)	-	(838,123)
Balance at 31 December 2015	**1,676,245**	**110,350**	**839,590**	**2,102,951**	**2,950,116**	**7,679,252**	**38,196**	**7,717,448**
Balance at 1 January 2016	1,676,245	110,350	839,590	2,102,951	2,950,116	7,679,252	38,196	7,717,448
Profit for the year	-	-	-	659,542	-	659,542	3,436	662,978
Other comprehensive income	-	-	-	-	36,602	36,602	2,975	39,577
Total comprehensive income for the year	-	-	-	659,542	36,602	696,144	6,411	702,555
Zakat	-	-	-	(482)	-	(482)	-	(482)
Transfer to regulatory credit risk reserve	-	-	-	(44,000)	44,000	-	-	-
Transfer to legal reserve	-	(110,350)	110,841	(491)	-	-	-	-
Transfer to voluntary reserve	-	-	-	(491)	491	-	-	-
Dividend paid	-	-	-	(838,000)	-	(838,000)	(1,142)	(839,142)
Balance at 31 December 2016	**1,676,245**	**-**	**950,431**	**1,879,029**	**3,031,209**	**7,536,914**	**43,465**	**7,580,379**

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

Consolidated Statement of Cash Flows for the Year Ended 31 December 2016

	2016 AED'000	2015 AED'000
Cash flows from operating activities		
Profit for the year	662,978	1,405,320
Adjustments:		
Provision for impairment of loans and advances, net	1,807,714	1,055,405
Depreciation of property and equipment	108,908	121,302
Amortisation of intangible assets	3,208	1,872
Fair valuation of asset acquired	550	(5,400)
Provision for employees' end of service benefits	19,844	19,305
Gain on disposal of property and equipment	(978)	(934)
Amortisation of premium/discount relating to investments securities	14,878	16,129
Gain on sale of held-for-trading investment securities	(4,219)	799
Impairment provision investment securities	25,611	6,000
Gain on sale of available-for-sale investment securities	(121,128)	-
Gain on held for trading investment securities	(227)	-
Changes in operating assets and liabilities	**2,517,139**	**2,619,798**
Increase/(decrease) in deposits with the UAE Central Bank	459,914	(306,489)
Increase in due from other banks with original maturities of three months or over	(1,003,041)	(442,442)
Increase in loans and advances, net	(2,735,487)	(3,587,026)
Increase in insurance contract assets and receivables	(40,846)	(27,147)
Increase in other assets	(41,754)	(91,930)
Increase in due to other banks	505,736	294,334
Increase in deposits from customers	1,578,080	3,168,697
Increase/(decrease) in insurance contract liabilities and payables	76,043	(18,248)
Increase in other liabilities	14,877	49,337
Net cash generated from operating activities	**1,330,661**	**1,658,884**
Cash flows from investing activities		
Purchase of investment securities	(3,901,196)	(478,159)
Purchase of property and equipment	(85,038)	(79,069)
Proceeds from maturity/disposal of investment securities	3,330,248	163,187
Proceeds from disposal of property and equipment	1,714	18,174
Investment in RAKNIC, net	-	(203,956)
Net cash used in investing activities	**(654,272)**	**(579,823)**
Cash flows from financing activities		
Dividends paid	(839,142)	(838,123)
Zakat paid	(482)	(378)
(Purchase) of/issue of debt security	(134,655)	1,197,098
Net cash (used in)/generated from financing activities	**(974,279)**	**358,597**
Net (decrease)/increase in cash and cash equivalents	(297,890)	1,437,658
Cash and cash equivalents, beginning of the year	2,439,849	1,002,191
Cash and cash equivalents, end of the year (Note 32)	**2,141,959**	**2,439,849**

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

Notes to the Consolidated Financial Statements for the Year Ended 31 December 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 eight branches in the UAE.

At 31 December 2016, The National Bank of Ras Al-Khaimah (P.S.C.) comprises the Bank and five subsidiaries (together referred to as the "Group"). The consolidated financial statements for the year ended 31 December 2016 comprises the Bank and following direct 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.

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

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

2.1 New and revised IFRS applied with no material effect on the 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 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 years 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

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- 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:

New and revised IFRSs	Effective for annual periods beginning on or after
Annual Improvements to IFRS Standards 2014 - 2016 Cycle amending IFRS 1, IFRS 12 and IAS 28	The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after 1 January 2018, the amendment to IFRS 12 for annual periods beginning on or after 1 January 2017
Amendments to IAS 12 Income Taxes relating to the recognition of deferred tax assets for unrealised losses	1 January 2017
Amendments to IAS 7 Statement of Cash Flows to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities.	1 January 2017

New and revised IFRSs	Effective for annual periods beginning on or after
IFRIC 22 Foreign Currency Transactions and Advance Consideration The interpretation addresses foreign currency transactions or parts of transactions where: • there is consideration that is denominated or priced in a foreign currency; • the entity recognises a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and • the prepayment asset or deferred income liability is non-monetary.	1 January 2018
Amendments to IFRS 2 Share Based Payment regarding classification and measurement of share based payment transactions	1 January 2018
Amendments to IFRS 4 Insurance Contracts: Relating to the different effective dates of IFRS 9 and the forthcoming new insurance contracts standard.	1 January 2018
Amendments to IAS 40 Investment Property: Amends paragraph 57 to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The paragraph has been amended to state that the list of examples therein is non-exhaustive.	1 January 2018
Amendments to IFRS 7 Financial Instruments: Disclosures relating to disclosures about the initial application of IFRS 9	When IFRS 9 is first applied

New and revised IFRSs	Effective for annual periods beginning on or after
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 9 Financial Instruments (revised versions in 2009, 2010, 2013 and 2014) 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. A finalised version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement. The standard contains requirements in the following areas: • **Classification and measurement:** Financial assets are classified by reference to the business model within which they are held and their contractual cash flow characteristics. The 2014 version of IFRS 9 introduces a ‚fair value through other comprehensive income' category for certain debt instruments. Financial liabilities are classified in a similar manner to under IAS 39, however there are differences in the requirements applying to the measurement of an entity's own credit risk • **Impairment:** The 2014 version of IFRS 9 introduces an ‚expected credit loss' model for the measurement of the impairment of financial assets, so it is no longer necessary for a credit event to have occurred before a credit loss is recognised	1 January 2018

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 9 Financial Instruments [revised versions in 2009, 2010, 2013 and 2014] (continued) • **Hedge accounting:** Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures • **Derecognition:** The requirements for the derecognition of financial assets and liabilities are carried forward from IAS 39	
IFRS 15 Revenue from Contracts with Customers In May 2014, IFRS 15 was issued which established a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance including IAS 18 Revenue, IAS 11 Construction Contracts and the related interpretations when it becomes effective. The core principle of IFRS 15 is that an entity should recognize 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. Specifically, the standard introduces a 5-step approach to revenue recognition: • Step 1: Identify the contract(s) with a customer • Step 2: Identify the performance obligations in the contract • Step 3: Determine the transaction price • Step 4: Allocate the transaction price to the performance obligations in the contract • Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation Under IFRS 15, an entity recognises when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.	1 January 2018

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New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 15 Revenue from Contracts with Customers to clarify three aspects of the standard (identifying performance obligations, principal versus agent considerations, and licensing) and to provide some transition relief for modified contracts and completed contracts.	1 January 2018
IFRS 16 Leases IFRS 16 specifies how an IFRS reporter will recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.	1 January 2019
Amendments to IFRS 10 Consolidated Financial Statements and IAS 28 Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets from and investor to its associate or joint venture.	Effective date deferred indefinitely

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period of initial application and adoption of these new standards, interpretations and amendments, except for IFRS 9, IFRS 15 and IFRS 16, may have no material impact on the consolidated financial statements of the Group in the period of initial application. The application of IFRS 9 may have significant impact on amounts reported and disclosures made in the Group's 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 consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements 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.

The UAE Federal Law No. 2 of 2015 ("Compliance Law") has come into force on July 1, 2015. The Bank has twenty four months from the effective date of Companies Law to comply with provisions (the "transitional provisions") and the Bank has availed the transitional provisions.

(b) Consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- has power over an investee,
- is exposed, or has rights, to variable returns from its involvement with the investee, and
- has the ability to use its power over the investee to affect the amount of the investor's returns

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights raising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

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All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to shareholders of the Parent.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss have been recognised in the consolidated statement of comprehensive income and accumulated in equity, the amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are accounted for as if the Parent had directly disposed of the relevant assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

(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.

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.

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

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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.

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) Business combination and goodwill

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any noncontrolling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the noncontrolling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisitiondate fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 and IAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit and loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in consolidated statement of comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit might be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in the subsequent periods.

On disposal of the relevant cash-generating unit, the atributable amount of goodwill is included in the determination of the profit or loss on disposal.

(f) Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities held for trading) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities held for trading are recognized immediately in the consolidated income statement.

(g) Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

Debt instruments, including loans and advances and Islamic financing and investments products, are measured at amortised cost if both of the following conditions are met:

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

All other financial assets are subsequently measured at fair value.

Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss.

For foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated income statement.

Impairment of financial assets

Financial assets that are measured at amortised cost are assessed for impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the asset have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

The amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows reflecting the amount of collateral and guarantee, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and advances and due from banks, where the carrying amount is reduced through the use of an allowance account. When a loan is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the consolidated income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the consolidated income statement to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment of loans and advances measured at amortised costs are assessed by the Group as per Note 3(c) to the consolidated financial statements.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

(h) Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not held-for-trading are measured at amortised cost at the end of subsequent accounting periods. The carrying amounts of financial liabilities that are subsequently measured at amortised cost are determined based on the effective interest method. Interest expense that is not capitalised as part of costs of an asset is included in the consolidated income statement.

Foreign exchange gains and losses

For financial liabilities that are denominated in a foreign currency and are measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the instruments and are recognised in the consolidated income statement.

The fair value of financial liabilities denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of the reporting period.

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Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated income statement.

(i) 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.

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 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 consolidated income statement.

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

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)].

(j) Due from banks

Amounts due from banks are initially recognized at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amount due from banks is assessed as outlined in the accounting policy for loans and advances [Note 3(c)].

(k) 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.

(l) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments are disclosed in Note 31.

Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on debt securities issued. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate debt securities issued is recognised in the income statement within 'Interest expense'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'Other operating income'. Changes in the fair value of the hedge fixed rate debt securities issued attributable to interest rate risk are recognised in the income statement within 'Interest expense'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(m) Debt securities issued

Debt issued is recognised initially at fair value, net of transaction costs incurred. After initial measurement, debt issued is subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(n) Property and equipment

Land and buildings comprise branches, offices and certain residential premises purchased for occupation of management and staff. Property and equipment is stated at cost less accumulated depreciation. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other assets is calculated using the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	15 - 30
Computer equipment and software	4 -15
Furniture, fixtures and equipment	4 - 6
Leasehold improvements	2 - 6
Motor vehicles	2 - 4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capital work in progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with the Group's accounting policy.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income.

(o) Employee benefits

(i) Defined contribution plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees. Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

(ii) Defined benefit plan

Provision is made for the end of service benefits due to non-UAE nationals in accordance with the UAE Labour Law for their periods of service up to the financial position date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The provision arising is disclosed as 'provision for employees' end of service benefits' under other liabilities in the consolidated statement of financial position.

(iii) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to financial position date. This provision is included in other liabilities.

(p) Fiduciary assets

Assets and the income arising on the Bank's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognised in accordance with the accounting policy on fees and commission income [Note 3(v)].

(q) Share capital

(i) Share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

(r) Provisions and contingent liabilities

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

(s) Due to customers

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

(t) Foreign currencies

Items included in the consolidated financial statements of the Group are measured using UAE Dirhams which is the currency of the primary economic environment in which the Group operates ('functional currency'). The consolidated financial statements are presented in UAE Dirhams. Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are translated into UAE Dirhams at the rates ruling at the consolidated statement of financial position date. Any resultant gains or losses are accounted for in the consolidated income statement other than for items presented in other comprehensive income.

(u) Interest income and expense

Interest income and expense are recognised in the income statement for all instruments measured at amortised cost using the effective interest method. Interest earned whilst holding investment securities is reported in interest income in the consolidated income statement.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(v) Fee and commission income

Fees and commissions, other than loan arrangement fees, are generally recognised when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognised as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-proportionate basis. Fees earned on the Bank's fiduciary activities are

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recognised over the period in which the service is provided. The same principle is applied to custody services that are continuously provided over an extended period of time.

(w) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

(x) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. All transactions between business segments are conducted on an arm´s length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8, the Bank has the following business segments: retail banking, business banking and treasury.

(y) 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.

(i) License

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

(ii) Customer relationships

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

(z) Insurance contracts

Insurance and reinsurance contracts held

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

The Group writes the following types of insurance contracts:

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

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

Insurance and other receivables

Insurance and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less impairment losses. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

The carrying amount of the receivable is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated 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 consolidated income statement.

Deferred acquisition costs

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

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

(i) Classification

The Group issues contracts that transfer either insurance risk or both insurance and financial risks.

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Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Group to pay significant additional benefits due to happening of the insured event compared to its non-happening.

Insurance contracts may also transfer some financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts where insurance risk is not significant are classified as investment contracts.

Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

(ii) Recognition and measurement

Premiums

Gross premiums written reflect business incepted during the year, and exclude any fees and other amounts collected with and calculated based on premiums. These are recognised when underwriting process is complete and policies are issued.

The earned position of premium is recognised as an income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below.

Unearned premium provision

Unearned premiums are computed using statistical models to spread premium written evenly over period of coverage and are at least equal to the minimum stipulated by the UAE Insurance Law.

(iii) Claims

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expense reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. Adjustments to claims provisions established in prior periods are reflected in the financial statements of the period in which the adjustments are made. The methods used, and the estimates made, are reviewed regularly. Provision is also made for any claims incurred but not reported ("IBNR") at the date of statement of financial position on the basis of management estimates.

(iv) Liability adequacy test

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

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

(v) Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in statement of profit or loss in the period in which they are incurred.

Profit commission in respect of reinsurance contracts is recognised on an accrual basis.

(vi) Deferred acquisition cost

For general insurance contracts, the deferred acquisition cost asset represents the position of acquisition costs which corresponds to the proportion of gross premiums written that is unearned at the reporting date.

(vii) Insurance receivables and payables

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

(viii) Insurance contract provision and reinsurance assets

Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the statement of financial position date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the consolidated statement of financial position date.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

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4. Cash and balances with UAE Central Bank

	2016	2015
	AED'000	AED'000
Cash in hand	819,539	802,647
Balances with the UAE Central Bank	243,677	277,835
Statutory deposit with the UAE Central Bank	3,017,800	2,827,714
Certificates of deposit with the UAE Central Bank	350,000	1,000,000
	4,431,016	**4,908,196**

Statutory deposits maintained with the UAE Central Bank represent deposits at stipulated percentages of the Bank's demand, savings, time and other deposits. These are only available for day-to-day operations under certain specified conditions and can not be withdrawn without the Central Bank's prior approval.

Cash in hand, balances and statutory deposit with the UAE Central Bank are non-interest bearing. Certificates of deposit carry an interest rate of 0.62% to 0.72% (2015: 0.22% to 0.40%) per annum.

5. Due from other banks

	2016	2015
	AED'000	AED'000
Placements with other banks	885,923	999,523
Demand deposits	270,310	495,858
Banker's acceptances	964,000	408,567
Syndicated loans	439,437	-
Other	69,560	2,865
	2,629,230	**1,906,813**

The below represents deposits and balances due from:

	2016	2015
	AED'000	AED'000
Banks in UAE	976,034	1,042,530
Banks outside UAE	1,653,196	864,283
	2,629,230	**1,906,813**

6. Loans and advances, net

	2016	2015
	AED'000	AED'000
(a) Loans and advances		
Retail banking loans	17,749,598	18,131,609
Wholesale banking loans	4,479,118	1,998,004
Business banking loans	7,550,582	8,413,083
Total loans and advances [Note 6(b)]	29,779,298	28,542,696
Provision for impairment [Note 6(c)]	(1,053,429)	(744,600)
Net loans and advances	**28,725,869**	**27,798,096**
(b) Analysis of loans and advances		
Personal loans	5,897,413	6,361,103
Mortgage loans	4,419,270	4,098,837
Credit cards	3,542,744	3,379,655
Auto loans	2,645,465	3,158,750
Business banking RAK finance loans	4,995,594	6,221,087
Business banking other loans	2,554,988	2,191,996
Wholesale banking loans	4,479,118	1,998,004
Other retail loans	1,244,706	1,133,264
Total loans and advances	**29,779,298**	**28,542,696**
(c) Provision for impairment		
Balance at the beginning of the year	744,600	539,227
Impairment allowance for the year	1,877,770	1,108,461
Written-off during the year	(1,568,941)	(903,088)
Balance at the end of the year	**1,053,429**	**744,600**
(d) Provision for impairment of loans and advances, net		
Impairment allowance for the year	1,877,770	1,108,461
Net recovery during the year	(70,056)	(53,056)
	1,807,714	**1,055,405**
(e) Impairment loans and advances provision coverage		
Aggregate impaired loans	1,249,458	914,368
Provision held	1,053,429	744,600
Coverage ratio	84.31%	81.43%

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

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.

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(f) Islamic financing assets

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

	2016	2015
	AED'000	AED'000
i) Islamic financing assets		
Islamic retail financing assets	3,153,673	3,433,666
Islamic business banking assets	927,810	1,099,223
Islamic wholesale banking assets	203,555	-
Total Islamic financing assets	4,285,038	4,532,889
Provision for impairment	(145,234)	(120,849)
	4,139,804	**4,412,040**
ii) Analysis of Islamic financing assets		
Islamic Salam Personal finance	1,508,935	1,733,838
Islamic Auto Murabaha	915,370	1,156,072
Islamic Business banking Finance	927,810	1,099,223
Islamic Ijara Property Finance	587,572	381,486
Islamic Credit Cards	141,066	161,531
Islamic wholesale banking	203,555	-
Islamic finance - other	730	739
	4,285,038	**4,532,889**

7. Investment securities

a) Investments

	2016	2015
	AED'000	AED'000
Securities available-for-sale		
Quoted equity securities	7,279	41,784
Unquoted equity securities	107	107
Quoted funds	20,637	-
Quoted debt securities*	4,546,570	74,746
Unquoted debt securities	219,100	-
	4,793,693	**116,637**
Securities held-for-trading		
Quoted debt securities	12,804	-
Quoted mutual funds	4,185	3,966
	16,989	**3,966**
Securities held-to-maturity		
Unquoted debt securities	-	220,380
Quoted debt securities	-	3,774,089
	-	**3,994,469**
Total investment securities	**4,810,682**	**4,115,072**

*As at 31 December 2016, quoted debt securities with book value of AED 583 million (31 December 2015: AED 658 million) have been given as collateral against repo borrowings of AED 546 million (31 December 2015: AED 591 million) [Note 12].

During the year, 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 can not classify any investment as held-to-maturity up until the year 2018.

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

	2016	2015
	AED'000	AED'000
Federal and local Government - UAE	592,743	702,109
Government related entity - UAE	892,945	1,034,464
Government - GCC	603,952	74,800
Government related entity - GCC	166,244	87,478
Government - other	85,437	-
Banks and financial institutions - UAE	661,609	590,819
Banks and financial institutions - GCC	152,992	22,016
Banks and financial institutions - other	1,199,636	1,044,733
Public limited companies - UAE	317,812	185,090
Public limited companies - GCC	10,847	-
Public limited companies - other	94,257	327,706
Total debt securities	**4,778,474**	**4,069,215**
Quoted equity securities	7,279	41,784
Quoted mutual funds	24,822	3,966
Unquoted equity securities	107	107
Total investment securities	**4,810,682**	**4,115,072**

c) Movement in investment securities

	Securities available for sale	Securities held for trading	Securities held to maturity	Total
	AED'000	AED'000	AED'000	AED'000
At 1 January 2016	116,637	3,966	3,994,469	4,115,072
Portfolio transfer	3,994,469	-	(3,994,469)	-
Purchases	2,708,675	1,192,521	-	3,901,196
Disposal/maturities	(2,025,176)	(1,179,725)	-	(3,204,901)
Net changes in fair value through OCI	39,577	-	-	39,577
Impairment/net changes in fair value through PL	(25,611)	227	-	(25,384)
Amortization of premium	(14,878)	-	-	(14,878)
At 31 December 2016	**4,793,693**	**16,989**	**-**	**4,810,682**
At 1 January 2015	60,291	-	3,725,089	3,785,380
Investments acquired on RAKNIC acquisition	43,450	4,765	3,707	51,922
Purchases	36,986	-	441,173	478,159
Disposal/maturities	(3,673)	-	(159,514)	(163,187)
Net changes in fair value through OCI	(14,274)	-	-	(14,274)
Impairment/net changes in fair value through PL	(6,000)	(799)	-	(6,799)
Amortization of premium	(143)	-	(15,986)	(16,129)
At 31 December 2015	**116,637**	**3,966**	**3,994,469**	**4,115,072**

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8. Insurance contract assets and receivables

	2016	2015
	AED'000	AED'000
Reinsurance contract assets		
Claims reported unsettled	77,826	83,687
Claims incurred but not reported	14,917	11,044
Deferred reinsurance premium and commission	37,064	45,458
Total reinsurance contract assets	**129,807**	**140,189**
Insurance related receivables		
Premium receivables	202,456	157,877
Reinsurance companies	26,356	9,427
Insurance agents and brokers	835	3,165
Gross insurance related receivables	229,647	170,469
Provision for doubtful receivables	(18,495)	(10,545)
Net insurance related receivables	**211,152**	**159,924**
Insurance contract assets and receivables	**340,959**	**300,113**

9. Other assets

	2016	2015
	AED'000	AED'000
Interest receivable	207,088	214,791
Profit receivable on Islamic financing assets	34,012	43,055
Prepayments and deposits	105,928	79,570
Interest rate swaps and other derivatives (Note 31)	17,292	23,496
Customer acceptances	49,563	34,319
Insurance related receivables and assets	62,087	38,392
Others	49,518	50,661
	525,488	**484,284**

10. Goodwill and other intangible assets

	Goodwill including insurance license	Intangibles-customer relationship	Goodwill and other intangible assets
	AED'000	AED'000	AED'000
Cost			
At 1 January 2015	-	-	-
RAKNIC acquisition	166,386	12,835	179,221
At 31 December 2015	166,386	12,835	179,221
Additions	-	-	-
At 31 December 2016	**166,386**	**12,835**	**179,221**
Accumulated amortization			
At 1 January 2015	-	-	-
Charge for the year	-	(1,872)	(1,872)
At 31 December 2015	-	(1,872)	(1,872)
Charge for the year	-	(3,208)	(3,208)
At 31 December 2016	**-**	**(5,080)**	**(5,080)**
Net book value			
At 31 December 2016	**166,386**	**7,755**	**174,141**
At 31 December 2015	**166,386**	**10,963**	**177,349**

For the purpose of impairment assessment, goodwill is allocated to the Group's insurance business. Goodwill is tested for impairment annually or at a more frequent basis when there is evidence that the fair value of the unit is less than the carrying value. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Management has carried out an impairment test for goodwill at the year end and has concluded that no impairment has taken place. For this purpose, the recoverable amount of each cash generating unit has been determined based on a value-in-use calculation using cash flow projections, based on financial budgets approved by senior management, covering a five year period. Cash flows beyond the five-year period are extrapolated using a growth rate, which management believes approximates the long term growth rate for the industry in which the cash generating unit operates.

11. Property and equipment

	Land and buildings	Leasehold improvements	Other fixed assets	Capital work-in-progress	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Cost					
At 1 January 2015	643,532	123,956	790,613	10,744	1,568,845
RAKNIC acquisition	16,068	-	3,141	-	19,209
Additions	-	71	36,800	42,198	79,069
Transfers	48,628	(25,258)	9,052	(32,422)	-
Disposals	(20,121)	-	(5,130)	-	(25,251)
At 31 December 2015	688,107	98,769	834,476	20,520	1,641,872
Additions	973	-	18,003	66,062	85,038
Transfers	17,113	4,806	45,443	(67,362)	-
Disposals	(570)	-	(3,430)	-	(4,000)
At 31 December 2016	**705,623**	**103,575**	**894,492**	**19,220**	**1,722,910**
Accumulated depreciation					
At 1 January 2015	86,676	87,439	457,016	-	631,131
Charge for the year	24,454	12,490	84,358	-	121,302
Transfers	30,899	(17,060)	(13,839)	-	-
Disposals	(3,247)	-	(4,764)	-	(8,011)
At 31 December 2015	138,782	82,869	522,771	-	744,422
Charge for the year	26,218	8,586	74,104	-	108,908
Disposals	(422)	-	(2,842)	-	(3,264)
At 31 December 2016	**164,578**	**91,455**	**594,033**	**-**	**850,066**
Net book value At 31 December 2016	**541,045**	**12,120**	**300,459**	**19,220**	**872,844**
At 31 December 2015	**549,325**	**15,900**	**311,705**	**20,520**	**897,450**

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

12. Due to other banks

	2016	2015
	AED'000	AED'000
Term borrowings	1,014,261	462,942
Repurchase agreements (Note 7)	545,723	591,403
Demand deposits	1,893	1,796
	1,561,877	**1,056,141**

13. Deposits from customers

	2016	2015
	AED'000	AED'000
Time deposits	8,178,941	7,723,523
Current accounts	16,426,022	15,057,746
Saving deposits	3,560,687	3,740,321
Call deposits	1,232,535	1,298,515
	29,398,185	**27,820,105**

Time deposits include AED 468 million (2015: AED 484 million) held by the Bank 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:

	2016	2015
	AED'000	AED'000
Wakala deposits	1,025,959	1,728,368
Mudaraba term investment deposits	42,468	36,928
Murabaha Term Deposit	7,350	-
Qard-E-Hassan - current accounts	559,917	521,847
Mudaraba - current accounts	924,682	1,030,169
Mudaraba - saving accounts	133,730	142,794
Mudaraba - call deposits	38,372	30,633
	2,732,478	**3,490,739**

14. Debt securities in issue

	2016	2015
	AED'000	AED'000
USD 500 million medium term note issued at discount in June 2014	1,829,618	1,826,768
USD 300 million medium term note issued at premium in March 2015	1,107,636	1,110,252
Less: Own investment in debt securities issued	(210,859)	(84,053)
Less: Debt security issue costs	(7,545)	(10,865)
Fair value adjustment on hedged debt securities in issue	11,222	22,625
	2,730,072	**2,864,727**

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

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15. Insurance contract liabilities and payables

	2016	2015
	AED'000	AED'000
Insurance contract liabilities		
Claims reported unsettled	114,618	133,230
Claims incurred but not reported	45,814	25,544
Unearned premiums	178,224	160,908
Total insurance contract liabilities	**338,656**	**319,682**
Insurance related payables		
Creditors	68,733	7,834
Reinsurance payables	36,506	48,371
Commission payables	21,931	13,896
Total insurance related payables	**127,170**	**70,101**
Insurance contract liabilities and payables	**465,826**	**389,783**

16. Other liabilities

	2016	2015
	AED'000	AED'000
Interest payable	50,081	34,332
Profit distributable on Islamic deposits	21,900	22,535
Accrued expenses	110,843	195,275
Managers cheques issued	131,296	119,380
Provision for employees' end-of-service benefits (Note 29)	96,754	96,051
Derivatives (Note 31)	5,390	3
Customer acceptances	49,563	34,319
Mortgage payables and liabilities	22,769	25,880
Credit card payables and liabilities	90,562	12,427
Asset based finance payables and liabilities	19,991	12,445
Insurance realated payables and liabilities	39,354	66,575
Other	135,387	119,947
	773,890	**739,169**

17. Share capital and dividend

At 31 December 2016, the authorised, issued and fully paid share capital of the Bank 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.

18. Legal reserve

In accordance with the UAE Federal Law No (2) of 2015 and Articles of Association of the Bank, 10% of the Bank's net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the issued share capital. Since the legal reserve of the Bank is equal to 50% of Bank's issued capital, profit was not appropriated to legal reserve during the year. This reserve is not available for distribution. Additionally, the subsidiaries of the Bank also appropriate their profit to a legal reserve which is added to the Bank's legal reserve.

Share premium represents amounts received from shareholders in excess of the nominal value of the shares allotted to them. In accordance with the Articles of Association of the Bank, share premium is not available for distribution. Share premium was transferred to legal reserve in 2016 according to the UAE Federal Law No (2) of 2015.

19. Other reserves

	Voluntary reserve	General banking risk reserve	Credit risk reserve	Regulatory credit risk reserve	Treasury stock elimination	Fair value reserve	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 1 January 2015	336,717	900,000	1,150,000	334,000	-	154	2,720,871
Changes during the year	-	100,000	100,000	43,000	(2,397)	(11,358)	229,245
At 31 December 2015	336,717	1,000,000	1,250,000	377,000	(2,397)	(11,204)	2,950,116
Changes during the year	491	-	-	44,000	-	36,602	81,093
At 31 December 2016	**337,208**	**1,000,000**	**1,250,000**	**421,000**	**(2,397)**	**25,398**	**3,031,209**

In accordance with the Articles of Association of the Bank, 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. Since the voluntary reserve of the Bank is equal to 20% of Bank's issued capital, profit was not appropriated to voluntary reserve during the year. Additionally, the subsidiaries of the Bank also appropriate their profit to such reserve which is added to the Bank's voluntary reserve. This reserve is available for distribution.

The Bank maintains a general banking risk reserve to address the risks inherent in the Bank's operating environment. Contributions to this reserve are made at the discretion of the Directors. This reserve is available for distribution.

The Bank has also established a special reserve for credit risk. Contributions to this reserve are voluntary and made at the discretion of the Directors. This reserve is available for distribution.

The Bank has created a non-distributable special reserve titled as 'Regulatory Credit Risk Reserve' and this reserve is maintained at least at a level of 1.5% of the credit risk weighted assets at the end of each financial year, as instructed by the Central Bank of U.A.E.

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

20. Non-controlling interests

	Year ended 31 December 2016	Period from 28 May 2015 to 31 December 2015
	AED'000	AED'000
Balance at the beginning of the year/period	38,196	-
RAKNIC acquisition*	-	36,179
Profit for the year/period	3,436	4,933
Dividends paid	(1,142)	-
Change in other comprehensive income for the year/period	2,975	(2,916)
Balance at the end of the year/period	**43,465**	**38,196**

*On 28 May 2015 RAKBANK acquired 79.23% stake in RAKNIC through public offer. Non-controlling interest on acquisition of AED 36.179 million amounts to 20.77% of the fair value of net assets on acquisition date.

21. Interest income and interest expense

	2016	2015
	AED'000	AED'000
Interest income		
Personal loans	338,153	385,630
Mortgage loans	156,455	180,652
Credit cards	754,885	696,460
Auto loans	129,081	148,673
Business banking RAK finance loans	773,506	968,717
Wholesale banking loans	141,050	84,917
Business banking loans	239,571	226,046
Other retail loans	37,810	28,618
Investment securities	178,247	175,014
Deposits with the U.A.E. Central Bank	4,091	3,745
Other banks	6,025	3,282
	2,758,874	**2,901,754**
Interest expense		
Due to customers	196,515	168,425
Debt securities issued	62,544	49,969
Borrowings from other banks	17,735	5,435
	276,794	**223,829**

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22. Income from Islamic financing and distribution to depositors

	2016	2015
	AED'000	AED'000
Income from Islamic financing		
Islamic Salam personal finance	125,692	140,557
Islamic Auto Murabaha	73,210	78,084
Islamic business finance	152,833	174,025
Islamic finance wholesale banking	911	-
Islamic asset based finance	6,520	2,668
Islamic Ijara property finance	20,610	9,953
	379,776	**405,287**
Distribution to depositors		
Distribution of profit on Islamic term investment deposits	29,117	29,536
Distribution of profit on Islamic demand deposits	7,638	5,381
	36,755	**34,917**

23. Net fees and commission income

	2016	2015
	AED'000	AED'000
Personal loans	23,566	26,764
Mortgage loans	27,776	31,418
Credit cards	267,177	248,060
Auto loans	21,814	17,488
RAK Finance business loans	37,449	66,936
Wholesale banking	42,109	13,757
Other business banking	84,075	72,088
Fiduciary income	46,766	79,051
Bancassurance	45,290	67,333
Other	58,980	59,355
	655,002	**682,250**

24. Gross insurance underwriting profit

	2016	2015
	AED'000	AED'000
Gross insurance premium	414,902	238,395
Less: insurance premium ceded to reinsurers	(87,728)	(57,245)
(Net retained premium)	327,174	181,150
Net change in unearned premium reserve	(11,728)	(11,446)
(Net insurance premium)	315,446	169,704
Gross claims incurred	(323,723)	(183,998)
Insurance claims recovered from reinsurers	99,123	54,562
(Net claims incurred)	(224,600)	(129,436)
Gross commission earned	5,194	5,259
Less: commission incurred	(40,800)	(8,022)
(Net commission incurred)	(35,606)	(2,763)
Gross underwriting profit	**55,240**	**37,505**

The acquisition for RAKNIC was completed on 28 May 2015, the results for RAKNIC have been consolidated into those of the Group from that day onwards. RAKNIC income for 2015 is for the period 28 May 2015 to 31 December 2015.

25. Investment income/(loss)

	2016	2015
	AED'000	AED'000
Dividend income	1,742	632
Net gain on disposal of investments	125,347	-
Fair value loss, net	(784)	(6,800)
	126,305	**(6,168)**

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26. Operating expenses

	2016 AED'000	2015 AED'000
Staff costs (Note 28)	546,331	614,646
Occupancy costs	98,028	94,634
Marketing expenses	30,487	32,648
Depreciation and amortization	112,116	123,174
Communication costs	38,462	35,372
Legal and consultancy fees	53,641	52,687
Computer expenses	77,813	77,583
Outsourced staff costs	345,811	367,544
Other	65,932	80,219
	1,368,621	**1,478,507**

27. 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 year.

	2016	2015
Profit for the year (AED'000)		
(attributed to owners of the Bank)	659,542	1,400,387
Weighted average number of shares in issue (in 000's)	1,676,245	1,676,245
Basic earnings per share (AED)	0.39	0.84

There were no potentially dilutive shares as at 31 December 2016 and 2015.

28. Staff costs

	2016 AED'000	2015 AED'000
Salaries, allowances and bonus	500,801	564,362
Pension	9,522	5,073
End-of-service benefits	16,005	15,564
Other	20,003	29,647
	546,331	**614,646**

29. Provision for employees' end of service indemnity

	2016 AED'000	2015 AED'000
Balance at 1 January	96,051	84,852
Charge for the year	19,844	19,305
Amount acquired on RAKNIC acquisition	-	3,557
Payment during the year	(19,141)	(11,663)
	96,754	**96,051**

In accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations as at 31 December 2016, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value. Under this method an assessment has been made of an employee's expected service life with the Group and the expected basic salary at the date of leaving the service. Management has assumed average annual increment/promotion costs of 3.0% (2015: 3.5%).

30. Contingencies and commitments

	2016 AED'000	2015 AED'000
Irrevocable commitments to extend credit	31,788	37,646
Letters of guarantee	858,289	723,420
Letters of credit	61,526	76,847
Capital commitments and other contingencies	26,401	19,018
	978,004	**856,931**

Letters of credit are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

Guarantees commit the Bank to make payment on behalf of customers contingent upon the production of documents or failure of the customer to perform under the terms of the contract. Guarantees include AED 100 million guarantee given by the Bank for its subsidiary RAK Islamic Finance Company.

Cash requirements under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments

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since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. Commitments to extend credit amounting to AED 8,536 million (2015: AED 8,618 million) are revocable at the option of the Bank and not included in the above table.

31. Forward foreign exchange and other derivative contracts

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

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

	Fair Values		
	Assets	**Liability**	**Notional**
	AED'000	AED'000	AED'000
31 December 2016			
Foreign exchange contracts	3,853	3,845	873,776
Interest rate swaps	12,981	536	2,916,406
Other derivative contracts	458	1,009	514,220
Total	**17,292**	**5,390**	
31 December 2015			
Foreign exchange contracts	238	3	745,446
Interest rate swaps	23,258	-	2,850,248
Other derivative contracts	-	-	-
Total	**23, 496**	**3**	

32. Cash and cash equivalents

	2016	**2015**
	AED'000	AED'000
Cash in hand and current account with UAE Central Bank	1,063,216	1,080,482
Due from other banks	2,629,230	1,906,813
	3,692,446	**2,987,295**
Less: Due from other banks with original maturity of three months or more	(1,550,487)	(547,446)
	2,141,959	**2,439,849**

33. Operating segments

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

The Group has five main business segments:

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

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The segment information provided to the management for the reportable segments for the period ended 31 December 2016 and 2015 is as follows:

	Retail Banking	Wholesale Banking	Business Banking	Treasury and other	Insurance business	Unallocated	Consolidation elimination	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2016								
Net external interest income	1,324,786	100,887	963,938	88,037	4,432	-	-	2,482,080
Income from Islamic financing net of distribution to depositors	186,124	911	155,986	-	-	-	-	343,021
Transfer pricing (expense)/ income	(66,252)	(8,655)	19,177	55,730	-	-	-	-
Net interest income and net income from Islamic financing	1,444,658	93,143	1,139,101	143,767	4,432	-	-	2,825,101
Non-interest income	552,537	48,725	169,123	187,683	59,882	-	(3,738)	1,014,212
Operating income	1,997,195	141,868	1,308,224	331,450	64,314	-	(3,738)	3,839,313
Operating expense excluding depreciation and amortisation	(825,762)	(31,248)	(147,064)	(11,198)	(44,526)	(200,445)	3,738	(1,256,505)
Depreciation and amortisation	(29,082)	(1,025)	(1,718)	(389)	(6,578)	(73,324)	-	(112,116)
Total operating expense	**(854,844)**	**(32,273)**	**(148,782)**	**(11,587)**	**(51,104)**	**(273,769)**	**3,738**	**(1,368,621)**
Impairment charge, net	(796,167)	(101,002)	(910,545)	-	-	-	-	(1,807,714)
Net profit/(loss)	**346,184**	**8,593**	**248,897**	**319,863**	**13,210**	**(273,769)**	**-**	**662,978**
Segment assets	18,123,356	5,815,927	7,259,633	9,849,526	574,290	-	(74,525)	41,548,207
Unallocated assets	-	-	-	-	-	962,022	-	962,022
Total assets	**18,123,356**	**5,815,927**	**7,259,633**	**9,849,526**	**574,290**	**962,022**	**(74,525)**	**42,510,229**
Segment liabilities	13,769,223	4,206,822	10,642,302	5,469,429	510,506	-	(74,525)	34,523,757
Unallocated liabilities	-	-	-	-	-	406,093	-	406,093
Total liabilities	**13,769,223**	**4,206,822**	**10,642,302**	**5,469,429**	**510,506**	**406,093**	**(74,525)**	**34,929,850**

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	Retail banking	Wholesale banking	Business banking	Treasury and other	Insurance business	Unallocated	Consolidation elimination	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2015								
Net external interest income	1,345,726	68,620	1,147,854	113,595	2,130	-	-	2,677,925
Income from Islamic financing net of distribution to depositors	196,024	-	174,346	-	-	-	-	370,370
Net transfer pricing income/(expense)	(40,987)	3,067	4,406	33,514	-	-	-	-
Net interest income and net income from Islamic financing	1,500,763	71,687	1,326,606	147,109	2,130	-	-	3,048,295
Non-interest income	604,080	19,134	161,657	69,356	46,316	-	(9,606)	890,937
Operating income	2,104,843	90,821	1,488,263	216,465	48,446	-	(9,606)	3,939,232
Operating expense excluding depreciation and amortisation	(914,464)	(22,560)	(171,676)	(7,081)	(23,613)	(225,545)	9,606	(1,355,333)
Depreciation and amortisation	(37,393)	(845)	(2,321)	(149)	(2,950)	(79,516)	-	(123,174)
Total operating expense	(951,857)	(23,405)	(173,997)	(7,230)	(26,563)	(305,061)	9,606	(1,478,507)
Impairment charge net of (write off)/ recovery	(578,667)	(29,021)	(447,717)	-	-	-	-	(1,055,405)
Net profit/(loss)	**574,319**	**38,395**	**866,549**	**209,235**	**21,883**	**(305,061)**	**-**	**1,405,320**
As at 31 December 2015								
Segment assets	18,621,454	2,395,428	8,253,915	9,874,195	525,519	-	(69,616)	39,600,895
Unallocated assets	-	-	-	-	-	986,478	-	986,478
Total assets	**18,621,454**	**2,395,428**	**8,253,915**	**9,874,195**	**525,519**	**986,478**	**(69,616)**	**40,587,373**
Segment liabilities	15,525,221	2,636,858	9,325,145	4,528,642	483,896	-	(69,616)	32,430,146
Unallocated liabilities	-	-	-	-	-	439,779	-	439,779
Total liabilities	**15,525,221**	**2,636,858**	**9,325,145**	**4,528,642**	**483,896**	**439,779**	**(69,616)**	**32,869,925**

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34. 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 year, 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:

	2016	2015
	AED'000	AED'000
Transactions during the year		
Interest income	184	213
Interest expense	29,836	14,245
Commission income	124	638
Directors' and key management personnel's remuneration and other expenses	20,155	20,364
Balances		
Loans and advances:		
Shareholders and their related companies	170	129
Directors and their related companies	1,155	131
Key management personnel	4,397	5,050
	5,722	**5,310**
Deposits		
Shareholders and their related companies	2,003,955	1,683,511
Directors and their related companies	10,036	12,945
Key management personnel	5,629	9,540
	2,019,620	**1,705,996**
Irrecoverable commitments and contingent liabilities and forward contracts		
Shareholders and their related companies	120,975	140,179
Directors and their related companies	403	423
	121,378	**140,602**
Insurance related receivables		
Due from policy holders	24,154	19,312
Insurance related payables		
Due to policy holders	294	614

35. Fiduciary activities

The Bank holds assets in a fiduciary capacity for its customers without recourse. At 31 December 2016, such assets amounted to AED 1,722 million (2015: AED 1,786 million) and are excluded from the consolidated financial statements of the Group.

36. Legal proceedings

The Bank is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Bank's consolidated financial statements if settled unfavourably.

The Bank's subsidiary, RAKNIC in common with other insurance companies, is involved as defendant in a number of legal cases in respect of its underwriting activities. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

37. 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 consolidated statement of financial position for the prior year ended 31 December 2015, as previously reported:

Extract of consolidated statement of financial position:

	As previously reported	Reclassifications	As reclassified
	AED'000	AED'000	AED'000
Assets - extract			
Investment securities	4,114,981	91	4,115,072
Insurance contract assets and receivables	325,493	(25,380)	300,113
Other assets	424,676	59,608	484,284
Total	**4,865,150**	**34,319**	**4,899,469**
Liabilities - extract			
Other liabilities	704,850	34,319	739,169
Contingencies and commitments	**891,250**	**(34,319)**	**856,931**

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

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38. Business combination

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

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

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

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

39. Financial risk management

Risk management review

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Group's financial performance.

The Group's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

Credit risk

Credit risk is defined as the risk that the Group's customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the Group to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Group, thereby resulting in the value of the assets to fall. As credit risk is the Group's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Bank.

The Group's credit policy provides for the development of a systematic and consistent approach to identifying and managing borrower and counter party risks contained in all retail and wholesale banking assets.

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

The Group manages, limits and controls concentration of credit risk wherever it is identified - in particular, to individual counterparties and groups, and to industries and countries. The Group has a Product Program Guide that sets limits of exposure and lending criteria. The Group also has credit limits that set out the lending and borrowing limits to/from other banks.

The Group stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Credit Committee and the Board of Directors.

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

The Group has in place policies which govern the determination of eligibility of various collaterals including credit protection, to be considered for credit risk mitigation which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigants. The Group's major collaterals are mortgaged properties, investments, vehicles & other registerable assets.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

Maximum exposure to credit risk before collateral held or other credit enhancements:

	Maximum exposure	
	2016	2015
	AED'000	AED'000
Credit risk exposures relating to on-balance sheet assets are as follows:		
Due from other banks	2,629,230	1,906,813
Loans and advances	28,725,869	27,798,096
Insurance contract assets	303,895	254,655
Investment securities	4,810,682	4,115,072
Other assets	336,475	316,599
Credit risk exposures relating to off-balance sheet items are as follows:		
Loan commitments and other off balance sheet items	951,603	837,913
	37,757,754	**35,229,148**

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The above table represents a worst case scenario of credit risk exposure to the Group at 31 December 2016 and 2015 without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the consolidated statement of financial position.

As can be seen above, the most significant exposures arise from loans and advances to customers (including commitments) and amounts due from banks.

Management is confident in its ability to continue to control and minimise the loss arising from its exposure to credit risk resulting from its loans and advances portfolio, investment securities portfolio and amounts due from banks based on the following:

- 88% (2015: 90%) of the loans and advances are categorised in the top grades of the Bank's internal grading system
- Mortgage loans, loan against investments, asset based finance and auto loans, which are backed by collateral together, represent a significant portion 31% (2015: 31 %) of loans and advances
- 7.8 % (2015: 6.2%) of the loans comprise of restructured loans, where the Group has aligned its lending rates to current prevailing market lending rates and extended or modified payment arrangements to manage credit risk
- The Bank continuously reviews its credit and credit underwriting policies and changes are made based on the Management Information System (MIS) reports and the patterns that emerge from these reports

A significant portion of investment securities comprise debt instruments that are issued by government, reputable quasi-government organisations and financial institutions.

Loans and advances to customers and amounts due from banks

Loans and advances to customers and amounts due from banks are summarised as follows:

	31 December 2016		31 December 2015	
	Loans and advances to customers	Amounts due from banks	Loans and advances to customers	Amounts due from banks
	AED'000	AED'000	AED'000	AED'000
Neither past due nor impaired	26,064,577	2,629,230	25,683,132	1,906,813
Past due but not impaired	2,465,263	-	1,945,196	-
Individually impaired	1,249,458	-	914,368	-
Gross	**29,779,298**	**2,629,230**	**28,542,696**	**1,906,813**
Less: allowance for impairment	(1,053,429)	-	(744,600)	-
Net	**28,725,869**	**2,629,230**	**27,798,096**	**1,906,813**
Neither past due nor impaired				
Loans and advances	26,064,577	-	25,683,132	
Due from banks	-	2,629,230		1,906,813
Gross	**26,064,577**	**2,629,230**	**25,683,132**	**1,906,813**

Loans and advances

The Group uses the grading of loans into different buckets in assessing the impairment loss in the Group's loan portfolio. The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Group.

Retail banking loans are graded into buckets according to the number of installments past due. All loans that are not in default of interest payment and installment are graded as bucket 0, while loans and advances that are in default of interest payment and installments are graded upwards from bucket 1 onwards, depending on the number of days past due. The wholesale banking credit rating matrix is used to rate wholesale banking loans under various characteristics. There are 18 categories of performing loans and 3 categories of non-performing loans. These ratings and wholesale banking facilities are reviewed at least once a year, or more frequently as required. Loans and advances are classified as delinquent after 90 days of non-payment of interest and installments. The credit policy has set internal lending limits for various industry exposures.

Amounts due from banks

The Group held amounts due from banks of AED 2,629 million (2015: AED 1,907 million) which represents its maximum credit exposure on these assets. The balance due from banks includes AED 885.9 million (2015: AED 999.5 million) placements with banks, banker's acceptances of AED 964 million (2015: AED 408.6 million) and syndicated loans of AED 439.4 million (2015: Nil). Remaining balances due from banks and other financial institutions are held with reputable organisations within and outside UAE, where the risk of default is considered low.

Past due but not impaired

Loans and advances less than 90 days past due are not considered impaired in a collective assessment. Gross amount of loans and advances by class of customers that were past due but not impaired are as follows:

	2016	2015
	AED'000	AED'000
Past due up to 30 days	1,547,283	1,129,989
Past due 30 to 60 days	500,361	480,821
Past due more than 60 days	417,619	334,386
Total	**2,465,263**	**1,945,196**

Individually Impaired

The breakdown of the gross amount of individually impaired loans and advances, Islamic financing assets along with the fair value of related collateral held by the bank as security, are as follows:

	2016	2015
	AED'000	AED'000
Individually impaired loans	1,249,458	914,368
Fair value of collateral	(256,018)	(268,037)
Net	**993,440**	**646,331**

The total impairment provision for loans and advances is AED 1,053.4 million (2015: AED 744.6 million) of which AED 936.6 million (2015: AED 657.9 million) represents provision in respect of the individually impaired loans and advances and the remaining AED 116.8 million (2015: AED 86.7 million) represents the portfolio provision to reflect the risk inherent in the Group's loan portfolio. AED 256.02 million fair value of collateral shown above represents AED 250.9 million (2015: AED 259.7 million) fair value of collateral against mortgage loans and AED 5.12 million (2015: AED 8.3 million) against wholesale and business banking loans.

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Restructured loans and advances

Restructuring activities include interest rate adjustments, extended payment arrangements and modification of payments. The majority of restructuring activity is undertaken to improve cash flow and is within the terms and conditions of the Group's product programme guideline.

These policies are kept under continuous review. The Group has reviewed the entire portfolio and reported only restructured loans with financial difficulties under this note. The table below presents loans restructured during the year 2016 and 2015.

Restructured loans during the year:

Product	2016 No of Accounts	2016 Loan Amount AED'000	2015 No of Accounts	2015 Loan Amount AED'000
Personal loans	1,083	493,716	692	394,083
Mortgage loans	14	40,774	8	12,999
Credit cards	4,912	213,355	1,266	54,724
Auto loans	2,042	151,400	600	53,270
Small and medium business banking loans	75	83,663	14	11,722
Wholesale banking loans	21	129,538	8	36,484
RAK finance business loans	1,512	510,154	373	202,009
Total	**9,659**	**1,622,600**	**2,961**	**765,291**

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

Product	2016 No of accounts	2016 Loan amount AED'000	2015 No of accounts	2015 Loan amount AED'000
Personal loans	2,235	1,151,817	1,939	1,123,081
Mortgage loans	69	161,743	60	137,969
Credit cards	7,329	212,927	3,873	71,472
Auto loans	2,290	163,637	799	63,207
Small and medium business loans	88	91,556	14	10,076
Wholesale banking loans	28	156,260	9	36,053
RAK finance business loans	1,874	631,314	754	315,923
Total	**13,913**	**2,569,254**	**7,448**	**1,757,781**

Investment securities

Investment securities comprise debt securities issued by the Government, organisations which are quasi-governmental and local and foreign reputable organisations.

The table below presents an analysis of debt securities by rating agency designation at 31 December 2016 and 2015, based on Moody's and Fitch ratings or their equivalent.

	2016 AED'000	2015 AED'000
AA to A-	1,173,989	1,109,814
BBB+ to BBB-	2,058,559	1,840,778
BB+ to B-	624,300	-
Unrated	921,626	1,118,623
	4,778,474	**4,069,215**

Repossessed collateral

The Group occasionally takes possession of mortgaged property which is held as collateral for loans. During the year 2015, the Group took possession of a property with current market value of AED 4.8 million (5.4 million as at 31 December 2015) mortgaged by a wholesale banking customer. The acquired property is reported under other assets of the Group's balance sheet. In the case of retail auto loans and wholesale banking asset based finance where the underlying asset is repossessed as a part of recovery process, these are disposed of in an auction by authorised third parties and the Bank does not carry any such assets in its books.

Concentration of risks of financial assets with credit risk exposure

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to limit concentrations of exposures to counterparties, geographies and industries. Identified concentration of credit risk is controlled and managed accordingly.

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Geographical risk concentration

The following table breaks down the Group's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2016 and 2015.

For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties:

On balance sheet items:

	UAE	OECD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2016				
Due from other banks	975,883	636,269	1,017,078	2,629,230
Loans and advances - net	27,658,244	387,821	679,804	28,725,869
Insurance contract assets	303,895	-	-	303,895
Investment securities:				
- Held-for-trade	15,208	-	1,781	16,989
- Available-for-sale	2,465,695	325,739	2,002,259	4,793,693
Other assets	336,475	-	-	336,475
Total	**31,755,400**	**1,349,829**	**3,700,922**	**36,806,151**
31 December 2015				
Due from other banks	1,042,529	668,062	196,222	1,906,813
Loans and advances - net	26,798,839	756,511	242,746	27,798,096
Insurance contract assets	249,036	-	5,619	254,655
Investment securities:				
- Held-to-maturity	2,475,385	220,836	1,298,248	3,994,469
- Available-for-sale	78,989	-	37,648	116,637
- Held for trade	3,966	-	-	3,966
Other assets	315,935	-	664	316,599
Total	**30,964,679**	**1,645,409**	**1,781,147**	**34,391,235**

Off balance sheet items:

	UAE	OECD	Others	Total
	AED'000	AED'000	AED'000	AED'000
31 December 2016				
Credit commitments	30,614	-	1,174	31,788
Guarantees, letter of credit and other exposures	895,888	5,210	18,717	919,815
	926,502	**5,210**	**19,891**	**951,603**
31 December 2015				
Credit commitments	37,646	-	-	37,646
Guarantees, letter of credit and other exposures	779,082	5,381	15,804	800,267
	816,728	**5,381**	**15,804**	**837,913**

The following table breaks down the Bank's credit exposures on loans and advances, investment securities, due from other banks and off balance sheet items categorised by industry as of 31 December 2016 and 2015:

	On balance sheet items					
	Loans and advances	Investment securities	Due from other banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2016						
Agriculture, fishing & related activities	67	-	-	67	156	223
Crude oil, gas, mining & quarrying	7,399	-	-	7,399	116,160	123,559
Manufacturing	1,345,692	20,192	-	1,365,884	42,070	1,407,954
Electricity & water	4,637	558,445	-	563,082	1,215	564,297
Construction	1,118,709	325,690	-	1,444,399	141,528	1,585,927
Trading	5,385,264	-	-	5,385,264	183,316	5,568,580
Transport, storage & communication	1,472,200	389,103	-	1,861,303	19,764	1,881,067
Financial Institutions	1,350,156	2,144,273	2,629,230	6,123,659	108,233	6,231,892
Services	3,281,408	161,384	-	3,442,792	280,509	3,723,301
Government	-	1,211,595	-	1,211,595	12,276	1,223,871
Retail and consumer banking	14,760,337	-	-	14,760,337	46,376	14,806,713
Total exposures	**28,725,869**	**4,810,682**	**2,629,230**	**36,165,781**	**951,603**	**37,117,384**

	On balance sheet items					
	Loans and advances	Investment securities	Due from other banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2015						
Agriculture, fishing & related activities	96	-	-	96	156	252
Crude oil, gas, mining & quarrying	4,827	-	-	4,827	117,530	122,357
Manufacturing	714,332	218,264	-	932,596	23,529	956,125
Electricity & water	5,220	650,730	-	655,950	1,595	657,545
Construction	663,417	190,959	-	854,376	76,544	930,920
Trading	6,120,175	-	-	6,120,175	161,422	6,281,597
Transport, storage & communication	1,296,181	353,592	-	1,649,773	24,113	1,673,886
Financial Institutions	1,027,995	1,676,087	1,906,813	4,610,895	111,549	4,722,444
Services	3,284,830	248,531	-	3,533,361	246,094	3,779,455
Government	-	776,909	-	776,909	31,785	808,694
Retail and consumer banking	14,681,023	-	-	14,681,023	43,596	14,724,619
Total exposures	**27,798,096**	**4,115,072**	**1,906,813**	**33,819,981**	**837,913**	**34,657,894**

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Individually impaired loans by industry

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

	Less than 90 days	Overdue above 90 days	Total	Specific provision
	AED'000	AED'000	AED'000	AED'000
31 December 2016				
Manufacturing	347	48,271	48,618	27,683
Construction	1,891	54,984	56,875	46,351
Trading	10,521	456,726	467,247	411,634
Transport, storage & communication	1,485	54,368	55,853	47,918
Services	10,654	124,939	135,593	119,382
Retail and consumer banking	47,059	438,213	485,272	283,660
Total impaired loans	**71,957**	**1,177,501**	**1,249,458**	**936,628**
31 December 2015				
Manufacturing	-	12,448	12,448	12,655
Construction	1,212	20,718	21,930	20,674
Trading	29,314	276,353	305,667	252,653
Transport, storage and communication	3,543	45,554	49,097	45,425
Services	5,769	68,587	74,356	71,458
Retail and consumer banking	28,323	422,547	450,870	255,038
Total impaired loans	**68,161**	**846,207**	**914,368**	**657,903**

Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Asset and Liability Committee (ALCO) is chaired by the Chief Executive Officer and comprises the Divisional heads of Finance, Treasury, Risk, Operations, Wholesale Banking, Business Banking and Retail Banking. It meets on a regular basis to monitor and manage market risk.

ALCO is responsible for formalising the Group's key financial indicators and ratios, sets the thresholds to manage and monitor the market risk and also analyses the sensitivity of the Group's interest rate and maturity mis-matches. ALCO also guides the Group's investment decisions and provides guidance in terms of interest rate and currency movements.

Further the Group does not enter into derivative trades for speculative purposes. The only exposure to derivatives is in respect of forward exchange contracts which are entered to meet customer needs or interest rate swaps for economic hedging purposes.

Price risk

The Group is exposed to price risk as a result of its holdings in debt securities classified as available-for-sale investment securities. The fair values of investments quoted in active markets are based on current bid prices senior management meets regularly to discuss the return on investment and concentration across the Group's investment portfolio.

The sensitivity analysis for price risk illustrates how changes in the fair value of securities held by the Group will fluctuate because of changes to market prices whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market.

Interest rate risk

Cash flow interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Group monitors interest rate risk through the use of a detailed gap report and stress tests to analyse the impact of anticipated movements in interest rates.

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

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

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The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Group's assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

	Less than 3 months	3 months to 1 year	1 - 3 years	3 - 5 years	Over 5 years	Non -interest bearing	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 31 December 2016							
Assets							
Cash and balances with the UAE Central Bank	150,000	200,000	-	-	-	4,081,016	4,431,016
Due from other banks	1,336,939	893,021	59,400	-	-	339,870	2,629,230
Loans and advances, net	7,140,468	9,245,916	6,804,344	1,724,383	3,810,758	-	28,725,869
Investment securities	224,656	193,721	417,610	1,419,354	2,523,133	32,208	4,810,682
Insurance contract assets and receivables	-	-	-	-	-	340,959	340,959
Goodwill, property and equipment and other assets	-	-	-	-	-	1,572,473	1,572,473
Total	**8,852,063**	**10,532,658**	**7,281,354**	**3,143,737**	**6,333,891**	**6,366,526**	**42,510,229**
Liabilities and shareholders' equity							
Due to other banks	1,149,932	410,052	-	-	-	1,893	1,561,877
Deposits from customers	15,575,040	5,153,053	144,551	-	-	8,525,541	29,398,185
Debt securities in issue [1]	2,730,072	-	-	-	-	-	2,730,072
Insurance contract liabilities and payables	-	-	-	-	-	465,826	465,826
Other liabilities	-	-	-	-	-	773,890	773,890
Shareholders' equity	-	-	-	-	-	7,580,379	7,580,379
Total	**19,455,044**	**5,563,105**	**144,551**	**-**	**-**	**17,347,529**	**42,510,229**
Interest rate sensitivity gap	(10,602,981)	4,969,553	7,136,803	3,143,737	6,333,891	(10,981,003)	-

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

	Less than 3 months	3 months to 1 year	1 - 3 years	3 - 5 years	Over 5 years	Non -interest bearing	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 31 December 2015							
Assets							
Cash and balances with the UAE Central Bank	200,000	800,000	-	-	-	3,908,196	4,908,196
Due from other banks	1,164,983	259,107	21,263	-	-	461,460	1,906,813
Loans and advances, net	4,452,911	8,851,182	7,175,220	2,426,045	4,892,738	-	27,798,096
Investment securities	6,354	274,470	619,188	966,813	2,202,481	45,766	4,115,072
Insurance contract assets and receivables	-	-	-	-	-	300,113	300,113
Goodwill, property and equipment and other assets	-	-	-	-	-	1,559,083	1,559,083
Total	**5,824,248**	**10,184,759**	**7,815,671**	**3,392,858**	**7,095,219**	**6,274,618**	**40,587,373**
Liabilities and shareholders' equity							
Due to other banks	783,228	271,117	-	-	-	1,796	1,056,141
Deposits from customers	15,308,817	3,640,828	452,357	-	-	8,418,103	27,820,105
Debt securities in issue	2,864,727	-	-	-	-	-	2,864,727
Insurance contract liabilities and payables	-	-	-	-	-	389,783	389,783
Other liabilities	-	-	-	-	-	739,169	739,169
Shareholders' equity	-	-	-	-	-	7,717,448	7,717,448
Total	**18,956,772**	**3,911,945**	**452,357**	**-**	**-**	**17,266,299**	**40,587,373**
Interest rate sensitivity gap	(13,132,524)	6,272,814	7,363,314	3,392,858	7,095,219	(10,991,681)	-

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Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

	2016	2015
	AED'000	AED'000
Fluctuation in interest rates by 25 bps	24,015	22,506

The interest rate sensitivities set out above are worst case scenarios and employ simplified calculations. They are based on the gap between AED 19,385 million (2015: AED 16,009 million) of interest bearing assets with maturities within one year and AED 25,018 million (2015: AED 22,869 million) of interest bearing liabilities with maturities within one year. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Group does maintain a US dollar open position within limits approved by the Bank's ALCO.

At 31 December 2016, the Bank had the following net exposures denominated in UAE and foreign currencies:

On balance sheet items:

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
At 31 December 2016				
Assets				
Cash and balances with the UAE Central Bank	3,887,566	543,029	421	4,431,016
Due from other banks	607,961	1,754,102	267,167	2,629,230
Loans and advances	25,374,851	3,337,058	13,960	28,725,869
Insurance contract assets	303,895	-	-	303,895
Investment securities	10,505	4,800,177	-	4,810,682
Other assets	236,017	98,447	2,011	336,475
Total assets	**30,420,795**	**10,532,813**	**283,559**	**41,237,167**

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
At 31 December 2016				
Liabilities				
Due to other banks	483,000	924,042	154,835	1,561,877
Deposits from customers	24,784,746	3,849,562	763,877	29,398,185
Debt securities in issue	-	2,730,072	-	2,730,072
Insurance contract liabilities and payables	465,826	-	-	465,826
Other liabilities	626,333	47,010	3,793	677,136
Total liabilities	**26,359,905**	**7,550,686**	**922,505**	**34,833,096**
Net position of financial instruments	**4,060,890**	**2,982,127**	**(638,946)**	**6,404,071**
At 31 December 2015				
Assets				
Cash and balances with the UAE Central Bank	4,400,330	507,473	393	4,908,196
Due from other banks	748,695	1,032,713	125,405	1,906,813
Loans and advances	26,109,784	1,676,719	11,593	27,798,096
Insurance contract assets	254,655	-	-	254,655
Investment securities	49,564	4,065,508	-	4,115,072
Other assets	234,190	76,637	5,772	316,599
Total assets	**31,797,218**	**7,359,050**	**143,163**	**39,299,431**
Liabilities				
Due to other banks	100,000	955,246	895	1,056,141
Deposits from customers	23,789,921	3,231,781	798,403	27,820,105
Debt securities in issue	-	2,864,727	-	2,864,727
Insurance contract liabilities and payables	389,783	-	-	389,783
Other liabilities	608,587	27,795	6,736	643,118
Total liabilities	**24,888,291**	**7,079,549**	**806,034**	**32,773,874**
Net position of financial instruments	**6,908,927**	**279,501**	**(662,871)**	**6,525,557**

The Group has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the Bank has the largest net open position at 31 December 2016 and 2015. All currency positions are within limits laid down by ALCO.

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Off-balance sheet items:

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
At 31 December 2016				
Credit commitments	31,788	-	-	31,788
Guarantees, letter of credit and other exposures	647,336	253,611	18,868	919,815
Total	**679,124**	**253,611**	**18,868**	**951,603**
At 31 December 2015				
Credit commitments	37,646	-	-	37,646
Guarantees, letter of credit and other exposures	531,088	224,483	44,696	800,267
Total	**568,734**	**224,483**	**44,696**	**837,913**

Foreign exchange contracts:

	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
At 31 December 2016				
Foreign exchange contracts	9,919	104,746	759,111	873,776
Interest rate swaps	-	2,916,406	-	2,916,406
Other derivatives	-	514,220	-	514,220
Total	**9,919**	**3,535,372**	**759,111**	**4,304,402**
At 31 December 2015				
Foreign exchange contracts	408	73,481	671,557	745,446
Interest rate swaps	-	2,850,248	-	2,850,248
Total	**408**	**2,923,729**	**671,557**	**3,595,694**

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for customer lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

Liquidity risk management process

The Group manages its liquidity in accordance with Central Bank of the U.A.E. requirements and the Group's internal guidelines mandated by ALCO. Based on the directives of the ALCO, the Treasury manages the liquidity of the Bank.

On the funding side, the Group has a large proportion of its funds in the form of own funds which reduces the requirement for external funds. The Group relies on deposits from its relationship based retail and wholesale banking customers as its primary source of funding and only on a short term basis relies on interbank borrowings to fund its assets. The Group's debt securities typically are issued with maturities of greater than three years. Deposits from customers generally have shorter maturities and a large portion of them are repayable on demand as is endemic to these markets. The short term nature of these deposits increases the Group's liquidity risk and the bank manages this risk through maintaining competitive pricing and constant monitoring of market trends. Also, a most of the deposit customers of the Group are relationship based and based on past trends these deposits that they maintain are sticky in nature, thus reducing the liquidity risk to a large extent. The Group does not rely on large ticket deposits and its depositor profile is very diverse leading to a more stable deposit funding. The Group raised USD 500 million under Euro Medium Term Notes under USD 1 billion EMTN programme launched in June 2014. In March 2015 a second tranche of USD 300 million notes were issued under this programme. This helped the Group achieve long term funding. The Group may raise further amounts through EMTNs.

On the deployment side, the Group maintains a portfolio of highly liquid assets largely made up of balances with the UAE Central Bank, certificates of deposits issued by the Central Bank, inter-bank facilities and investment securities including investments in local government bonds which can be repoed to meet short term liquidity mismatches and be offloaded to meet longer term mismatches. The Central Bank of the U.A.E. has prescribed reserve requirements on deposits ranging between 1% and 14% on time and demand deposits. As a contingency funding plan, the Group evaluates and keeps ready debt financing plans which can be quickly executed if required.

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining years from the reporting date to the contractual cash flow date. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates.

The Central Bank of the U.A.E. also imposes mandatory 1:1 Loans to Stable Resources Ratio (LSRR) whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the U.A.E. ALCO monitors loans to stable resources ratios on a daily basis. The Group on a daily basis also monitors the liquid assets to total assets ratio and the eligible Liquid Asset Ratio and has set up internal management Action Triggers to take suitable corrective actions once the internal thresholds have been reached.

At 31 December 2016, 24.3% (2015: 23.9%) of the Group's total assets was in liquid assets. The LSRR as at 31 December, 2016 stood at 85.45% (2015: 83.3%) which is significantly lower than the maximum requirement of 100%. Similarly the Liquid Assets Ratio of the Group stood at 16.9% (2015: 19.1%) as at 31 December 2016, also reflecting a healthy liquidity position.

	Up to 3 months AED'000	3 – 12 months AED'000	1 – 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2016						
Assets						
Cash and balances with the UAE Central Bank	4,231,016	200,000	-	-	-	4,431,016
Due from other banks	1,091,482	1,380,402	157,346	-	-	2,629,230
Loans and advances	6,333,485	5,438,849	7,652,060	2,795,174	6,506,301	28,725,869
Investment securities	4,810,682	-	-	-	-	4,810,682
Insurance contract assets and receivables	70,378	248,109	20,516	1,956	-	340,959
Goodwill and other intangible assets	-	-	-	-	174,141	174,141
Property and equipment and other assets	459,324	57,209	8,267	688	872,844	1,398,332
Total	**16,996,367**	**7,324,569**	**7,838,189**	**2,797,818**	**7,553,286**	**42,510,229**
Liabilities and shareholders' equity						
Due to other banks	1,076,825	485,052	-	-	-	1,561,877
Due to customers	24,480,539	4,773,169	144,477	-	-	29,398,185
Debts security in issue	-	-	2,730,072	-	-	2,730,072
Insurance contract liabilities and payables	-	465,826	-	-	-	465,826
Other liabilities	673,681	3,455	-	-	96,754	773,890
Shareholders' equity	-	-	-	-	7,580,379	7,580,379
Total	**26,231,045**	**5,727,502**	**2,874,549**	**-**	**7,677,133**	**42,510,229**
Net cumulative						
liquidity gap	(9,234,678)	(7,637,611)	(2,673,971)	123,847	-	-
At 31 December 2015						
Total assets	11,924,402	6,961,414	8,355,458	3,622,178	9,723,921	40,587,373
Total liabilities and equity	24,857,892	4,584,430	466,489	2,864,727	7,813,835	40,587,373
Net cumulative liquidity gap	(12,933,490)	(10,556,506)	(2,667,537)	(1,910,086)	-	-

The Group has a large proportion of its liabilities as demand deposits which do not have a fixed maturity. Although behaviourally these deposits are stable, these have been grouped under up to 3 months category in accordance with the UAE Central Bank guideline.

Derivative cash flows

The Group's derivatives that will be settled on a gross basis comprise foreign exchange contracts.

The table below analyses the Group's derivative financial instruments that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows related to foreign exchange contract. Cash flows from interest rate swap not included in below note.

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

	Up to 1 month AED'000	1 -3 months AED'000	3 -12 months AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2016						
Foreign exchange contracts and other Derivative						
- Outflow	866,838	10,199	31,226	78,738	-	987,001
- Inflow	866,765	3,559	52,613	76,634	-	999,571
At 31 December 2015						
Foreign exchange contracts and other derivatives						
- Outflow	468,747	55,742	220,957	-	-	745,446
- Inflow	468,747	55,742	220,957	-	-	745,446

Off-balance sheet items:

	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2016				
Credit commitments	31,788	-	-	31,788
Guarantees and other financial facilities	764,737	130,075	25,003	919,815
Total	**796,525**	**130,075**	**25,003**	**951,603**
At 31 December 2015				
Credit commitments	37,646	-	-	37,646
Guarantees and other financial facilities	499,177	126,750	174,340	800,267
Total	**536,823**	**126,750**	**174,340**	**837,913**

Fair values of financial assets and liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December 2016, the carrying value of the Group's financial assets and liabilities measured at amortised cost approximate their fair values, except for the below mentioned financial asset:

	Fair value		Carrying value	
	2016	2015	2016	2015
	AED'000	AED'000	AED'000	AED'000
Financial assets				
Investment securities	4,810,682	4,193,909	4,810,682	4,115,072

Investment securities

Investment securities comprise mainly of interest-bearing debt instruments that are available for sale or quoted debt securities. Investment in equity shares is based on quoted prices.

Financial instruments

Categories of financial instruments

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

	Loans and receivables	Available for sale	Hedging derivatives	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
At 31 December 2016					
Assets					
Investment securities	-	4,793,693	-	16,989	4,810,682
Derivative financial instruments	-	-	12,928	4,364	17,292
Cash and balances with the UAE central Bank	4,431,016	-	-	-	4,431,016
Due from other banks	2,629,230	-	-	-	2,629,230
Loans and advances	28,725,869	-	-	-	28,725,869
Insurance contract assets and receivables	303,895	-	-	-	303,895
Other assets	336,475	-	-	-	336,475
Total financial assets	**36,426,485**	**4,793,693**	**12,928**	**21,353**	**41,254,459**

	Financial liabilities at amortised cost	Available for sale	Hedging derivatives	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Liabilities					
Due to other banks	1,561,877	-	-	-	1,561,877
Deposits from customers	29,398,185	-	-	-	29,398,185
Debt securities in issue	2,730,072	-	-	-	2,730,072
Insurance contract liabilities and payables	465,826	-	-	-	465,826
Derivative financial instruments	-	-	483	4,907	5,390
Other liabilities	121,544	-	-	-	121,544
Total financial liabilities	**34,277,504**	**-**	**483**	**4,907**	**34,282,894**

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The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IAS 39.

	Loans and receivables	Available for sale	Hedging derivatives	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
At 31 December 2015					
Assets					
Investment securities	3,994,469	116,637	-	3,966	4,115,072
Derivative financial instruments	-	-	23,258	238	23,496
Cash and balances with the UAE central Bank	4,908,196	-	-	-	4,908,196
Due from other banks	1,906,813	-	-	-	1,906,813
Loans and advances	27,798,096	-	-	-	27,798,096
Insurance contract assets and receivables	254,655	-	-	-	254,655
Other assets	316,599	-	-	-	316,599
Total financial assets	**39,178,828**	**116,637**	**23,258**	**4,204**	**39,322,927**

	Financial liabilities at amortised cost	Available for sale	Hedging derivatives	Fair value through profit or loss	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
Liabilities					
Due to other banks	1,056,141	-	-	-	1,056,141
Deposits from customers	27,820,105	-	-	-	27,820,105
Debt securities in issue	2,864,727	-	-	-	2,864,727
Insurance contract liabilities and payables	389,783	-	-	-	389,783
Derivative financial instruments	-	-	-	3	3
Other liabilities	91,186	-	-	-	91,186
Total financial liabilities	**32,221,942**	**-**	**-**	**3**	**32,221,945**

Fair value hierarchy

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

Quoted market prices - Level 1

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

Valuation techniques using observable inputs - Level 2

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

Valuation techniques using significant unobservable inputs - Level 3

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

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

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

The assets measured at fair value as per the hierarchy are disclosed in the table below:

	Quoted market prices Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	AED '000	AED '000	AED '000	AED'000
31 December 2016				
Asset at fair value				
Available for sale financial assets				
- Investment securities - debt	4,546,570	-	219,100	4,765,670
- Investment securities - equity	7,279	-	107	7,386
- Investment securities - Funds	20,637	-	-	20,637
- Foreign exchange contracts	-	3,853	-	3,853
Derivative financial instruments	-	13,439	-	13,439
Held for trading				
Investments market fund	4,185	-	-	4,185
Investment - debt securities	12,804	-	-	12,804
	4,591,475	**17,292**	**219,207**	**4,827,974**
31 December 2015				
Asset at fair value				
Available for sale financial assets				
- Investment securities - debt	74,746	-	-	74,746
- Investment securities - Equity	29,284	-	107	29,391
- Foreign exchange contracts	-	238	-	238
Derivative financial instruments	-	23,258	-	23,258
Held for trading				
Investments market fund	3,966	-	-	3,966
Asset at amortised cost				
Investment securities	3,865,421	-	220,385	4,085,806
	3,973,417	**23,496**	**220,492**	**4,217,405**

There are no transfers between levels during the period hence no Level 3 reconciliation is presented.

Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December 2016, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial assets and liabilities:

	Fair value		Carrying value	
	31 December 2016	31 December 2015	31 December 2016	31 December 2015
	AED'000	AED'000	AED'000	AED'000
Assets				
Loans and advances	28,934,906	28,005,631	28,725,869	27,798,096
Investment securities	4,810,682	4,193,909	4,810,682	4,115,072
Cash and balances with the UAE central Bank	4,432,543	4,911,482	4,431,016	4,908,196
Due from other banks	2,616,126	1,907,656	2,629,230	1,906,813
Total financial assets	**40,794,257**	**39,018,678**	**40,596,797**	**38,728,177**
Liabilities				
Due to other banks	1,561,818	1,057,492	1,561,877	1,056,141
Deposits from customers	29,461,531	27,883,754	29,398,185	27,820,105
Debt securities issued	2,730,072	2,864,727	2,730,072	2,864,727
Total financial liabilities	**33,753,421**	**31,805,973**	**33,690,134**	**31,740,973**

Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the Central Bank of United Arab Emirates;
- to safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a regular basis as required under Basel II standards.

The Bank's capital management is driven by short- and long-term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Bank seeks to optimise returns on capital, and its objective has always been to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

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Capital structure and capital adequacy as per Basel II requirement as at 31 December 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 standardized approach is followed for capital charge calculation under Pillar 1.

	2016	2015
	AED'000	AED'000
Tier 1 capital		
Ordinary share capital	1,676,245	1,676,245
Legal and other reserves	3,939,809	3,670,578
Retained earnings (excludes current year profit)	1,246,414	945,564
Total	**6,862,468**	**6,292,387**
Deductions		
Investment in RAKNIC	(312,886)	(317,244)
Tier 1 Capital	6,549,582	5,975,143
Tier 2 capital	-	-
Total regulatory capital	**6,549,582**	**5,975,143**
Risk weighted assets		
Credit risk	28,012,825	25,084,932
Market risk	19,663	8,547
Operational risk	1,988,195	1,735,802
Total risk weighted assets	**30,020,683**	**26,829,281**
Capital adequacy ratio on regulatory capital	21.82%	22.27%
Capital adequacy ratio on Tier 1 capital	21.82%	22.27%

Risk assets ratios computed considering the current year profit and without deducting any cash dividend for the year 2016 will be as follows:

	2016	2015
	AED'000	AED'000
Total Tier 1 capital	7,522,010	7,692,774
Total Tier 2 capital	-	-
Total capital base	7,522,010	7,692,774
Investment in RAKNIC	(312,886)	(317,244)
Total regulatory capital	**7,209,124**	**7,375,530**
Risk asset ratio on total capital base (%)	24.01%	27.49%
Risk asset ratio on tier 1 capital base (%)	24.01%	27.49%

40. Insurance risk

The Group accepts insurance risk through its written insurance contracts. The Group is exposed to uncertainty surrounding the timing, frequency and severity of claims under these contracts.

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Group mainly issues short term insurance contracts in connection with property, motor, marine and casualty risks.

Two key elements of the Group's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Underwriting strategy

The Group's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolios outcome.

The underwriting strategy is set out by the Group that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Group is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio. All general insurance contracts except marine, are annual in nature and the underwriters have the right to refuse renewal or to change the terms and conditions of the contract at renewal.

Frequency and amounts of claims

The Group has developed their underwriting strategy to diversify the type of insurance risks accepted and within each of the categories to achieve sufficiently large populations of risk to reduce the variability of the expected outcome. The frequency and amounts of claims can be affected by several factors. The Group underwrites mainly property, motor, casualty, medical and marine risks. These are regarded as short-term insurance contracts as claims are normally advised and settled within one year of the insured event taking place.

Property

Property insurance covers a diverse collection of risks and therefore property insurance contracts are subdivided into four risks groups, fire, business interruption, weather damage and theft. These contracts are underwritten by reference to the commercial replacement value of the properties and contents insured. The cost of rebuilding properties, of replacement or indemnity for contents and time taken to restart operations for business interruptions are the key factors that influence the level of claims under these policies. The greatest likelihood of significant losses on these contracts arises from storm, flood damage or other weather related incidents.

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Motor

Motor insurance contracts are designed to compensate policies holders for damage suffered to vehicles, disability to third parties arising through accidents and fire or theft of their vehicles.

Underwriting limits and guidelines are in place to enforce appropriate risk selection criteria.

The level of court awards for deaths and to injured parties and the replacement costs of motor vehicles are the key factors that influence the level of claims.

Marine

Marine insurance is designed to compensate contract holders for damage and liability arising through loss or damage to marine craft and accidents at sea resulting in the total or partial loss of cargoes.

For marine insurance, the main risks are loss or damage to marine craft and accidents resulting in the total or partial loss of cargoes.

The underwriting strategy for the marine class of business is to ensure that policies are well diversified in terms of vessels and shipping routes covered.

Casualty

For casualty class of business, such as workmen's compensation, personal accident, general third party liability and loss of money, the extent of loss or damage and the potential court awards are the main factors that influence the level of claims.

The Group manage these risks through their underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk. Underwriting limits are in place to enforce appropriate risk selections.

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

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

The Group has obtained adequate non-proportionate reinsurance cover for all classes of an amount considered appropriate by the management.

Medical

Medical selection is part of the Group's underwriting procedures, whereby contributions are charged to reflect the health condition and family medical history of the applicants. Pricing is based on assumptions, such as mortality and persistency, which consider past experience and current trends. Contracts including specific risks and guarantees are tested for profitability according to predefined procedures before approval.

Products are reviewed by the business units on an annual basis to confirm, or otherwise, that pricing assumptions remain appropriate. Analysis is performed on earnings and liability movements to understand the source of any material variation in actual results from what was expected. This confirms the appropriateness of assumptions used in underwriting and pricing.

Concentration of insurance risk

The insurance risk arising from insurance contracts is concentrated mainly in the United Arab Emirates. The geographical risk profile is similar to last year.

Assumptions and sensitivities

Process used to determine the assumptions

The method used by the Group for provision of IBNR takes into account historical data, past estimates and details of the reinsurance programme, to assess the expected size of reinsurance recoveries.

The assumptions that have the greatest effect on the measurement of insurance contract provisions are the expected loss ratios for the most recent accident years.

Reinsurance strategy

The Group reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Group has a Reinsurance department that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The Group buys a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Group. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances. All purchases of facultative reinsurance are subject to business unit pre-approval and the total expenditure on facultative reinsurance is monitored regularly by reinsurance department.

41. Critical accounting estimates and judgements in applying accounting policies

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting policies and management judgement for certain items are especially critical for the Group's results and financial situation due to their materiality.

a) Impairment losses on loans and advances and insurance receivables

The Group reviews its loan portfolio and receivables to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans or receivables before the decrease can be identified with an individual loan or receivables in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management takes into account the historical loss experience in estimating future cash flows in assessing the loan portfolio and receivables for impairment. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. A +/-5% change in the provision would increase/decrease the profit by AED 53 million (2015: AED 37 million).

b) Classification of and measurement of financial assets and liabilities

The Group classifies financial instruments, or its component parts, at initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of the instruments. The substance of the financial instrument, rather than the legal form, governs its reclassification in the statement of financial position.

The Group determines the classification at initial recognition and, when allowed and appropriate, re-evaluates this designation at every statement of financial position date.

In measuring financial assets and liabilities, some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

c) Fair value measurement

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

d) Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

(i) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and

(ii) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared. When valuing instruments on a model basis using the fair value of underlying components, management considers, in addition, the need for adjustments to take account of a number of factors such as bid-offer spread, credit profile, servicing costs of portfolios and model uncertainty.

e) Impairment of available for sale investments

The Group treats available-for-sale investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment.

f) Provision for outstanding claims, whether reported or not

Considerable judgment by the management is required in the estimation of amounts due to the contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the date of statement of financial position. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

g) Useful lives of property and equipment

The management determines the useful lives of property and equipment and the related depreciation charge. The depreciation charge for the year will change significantly if the actual life is different from the estimated useful life of the asset. The review carried out by management in the current year did not indicate any necessity for changes in the useful lives of property and equipment.

h) Impairment of goodwill

The calculation of value-in-use is sensitive to the following assumptions:

(i) Growth rate

Growth rates are based on the management's assessment of the market share having regard to the forecasted growth and demand for the products offered. Growth rate of 3% per annum have been applied in the calculation.

(ii) Profit margins

Profit margins are based on the management's assessment of achieving a stabilized level of performance based on the approved business plan of the cash generating unit for the next five years.

(iii) Discount rates

Management has used the discount rate of 10.4% per annum throughout the assessment period, reflecting the estimated weighted average cost of capital of the Group and specific market risk profile.

42. Social contributions

The social contributions made (including donations and charity) during the year to various beneficiaries amounted to AED 1.72 million (2015: AED 1.63 million).

43. Approval of the consolidated financial statements

The consolidated financial statements were approved on 1 February 2017.

Basel II – Pillar 3 Disclosures for the Year Ended 31 December 2016

The disclosures given below pertain to National Bank of Ras Al Khaimah P.S.C. and its five subsidiaries (Group) and are in accordance with Basel 2, Pillar 3, Market discipline principles where Banks are required to disclose qualitative and quantitative information of its risk and capital management. These disclosures are also in compliance with Circular No 27/2009 dated 17th November 2009 issued by the Central Bank of UAE.

Subsidiaries and Significant investments:

The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and five subsidiaries. These subsidiaries are Ras Al Khaimah National insurance company PSC (RAKNIC), RAK Islamic Finance Company Pvt. J.S.C, BOSS FZCO, RAK Technologies FZCO and RAK Funding Cayman Limited (together referred as the “Group”).The consolidated financial statements comprises the Bank and its subsidiaries. The Bank’s interests, held directly or indirectly, in the subsidiaries are as follows:

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

BASEL II – PILLAR 3 DISCLOSURES FOR THE YEAR

2. Capital Structure

Quantitative Disclosure:

The Group's capital structure is as indicated below.

	AED'000
Tier 1 capital	
Share capital	1,676,245
Legal reserves	950,431
Voluntary reserves	337,208
General banking reserves	1,000,000
Credit risk reserves	1,250,000
Regulatory credit reserves	377,000
Fair value reserve	25,170
Retained earnings	1,246,414
Tier 1 capital excluding year 2016 profit	**6,862,468**
Deductions	
Investment in RAKNIC	(312,886)
Tier 1 Capital	**6,549,582**
Tier 2 Capital	-
Total eligible capital	**6,549,582**

3. Capital adequacy

Qualitative Disclosure:

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business. The group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effects on the group's financial performance.

The Group's risk management considers a variety of risks. These typically include credit risk, liquidity risk, concentration risk, market risk, operational risk, Information security risk, business continuity risk, reputational risk and regulatory and compliance risk. Policies are designed to identify and analyse these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Bank's Board & Management believe that an effective risk department is vital to achieving the strategic growth objective in a sustainable manner. The Board Risk Committee endorses the Bank's overall risk management strategy and appetite and provides necessary direction to the risk management measures undertaken by the Bank. Executive accountability for continuous assessment, monitoring and management of the risk environment and efficacy of risk management procedures reside with executive level committees' viz. Management Risk Committee and Management Credit Committee. During the year various risk functions were centralised under an independent risk function headed by Chief Risk Officer providing further impetus to Bank's risk management strategy and governance.

As per the supervisory review process (SRP) under Basel 2, pillar 2, the Group periodically submits to the central bank its internal capital adequacy assessment programme (ICAAP) where it sets out all the risks it is exposed to, how it measures, monitors and where possible how it mitigates these risks and how the alignment with capital is achieved. It takes into account any feed-back it gets from its regulator.

Liquidity risk is managed by Treasury under the guidance of Asset and Liability Committee (ALCO) and in accordance with UAE Central Bank regulation and the Bank's internal guidelines. The Treasury has established a formal robust liquidity risk management framework that ensures sufficient liquidity, including a cushion of unencumbered, high quality liquid assets to withstand a range of stress events. The Bank monitors its liquidity ratios on a daily basis and has set up internal management action triggers to take suitable action when required. In addition, liquidity stress testing and scenario analysis is one of the key tools used by the Bank for measuring liquidity risk and evaluating the Bank's short-term liquidity position.

Regulatory Compliance continues to be an area of focus for the Board and Management of the Bank; the Bank continues to maintain a zero tolerance approach with respect to any regulatory breach. An independent Compliance function within Risk Management Department oversees Compliance Risk management framework and procedures across the Bank. The Compliance function is also responsible for actively mitigating AML and Sanctions risks apart from reviewing regulatory landscape and issuance of internal policies. The function is staffed with qualified professionals. Trainings and workshops are conducted on periodic intervals to maintain and enhance compliance discipline across all facets of Bank. The Bank has sufficiently invested in surveillance technology and successfully implemented Customer and Name Screening modules.

The Bank has established an independent Information Security (IS) function under the CRO. Proactively, the IS team monitors the cyber threat landscape and implement controls to mitigate risks. The IS practice of the Bank has a 24X7X365 Security Operations Centre to monitor and respond to any information security threat.

The Group has adopted the Standardized approach for calculation of credit risk and market risk. For operational risk the group has adopted the Alternative Standardized Approach (ASA). The various risks considered in the computation of risk assets under Basel 2 are described below:

Credit risk

Credit risk is defined as the risk that the Group's customers, clients or counter parties fail to perform or are unwilling to pay interest, repay the principal or otherwise to fulfil their contractual obligations under loan agreements or other credit facilities, thus causing the group to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the group, thereby resulting in the value of the assets to fall. As credit risk is the Group's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Group.

The Bank has centralized Credit Management functions each for Retail and Wholesale lending businesses, independent from the Operations and Business departments. The Bank has implemented appropriate policies, procedures and systems separately for the Retail and Wholesale lending businesses to ensure credit exposure is taken prudently.

In case of Retail lending business, the credit risk is managed through appropriate front-end sales and credit underwriting processes, and back-end operational and collection processes. Appropriate Product programmes defining customer segments, underwriting standards and security requirement are rolled-out to ensure consistency in underwriting and on-boarding process. Retail credit portfolio is monitored centrally across products and customer segments. For Wholesale Banking exposures, credit risk is managed by appropriately identifying target market segment, structured credit approval process and robust

BASEL II – PILLAR 3 DISCLOSURES FOR THE YEAR

post-disbursement monitoring and remedial processes.

The Board Credit Committee oversees the credit management measures including Portfolio, sectorial and customer level review as also quality of assets and health of large borrower accounts and borrower groups. The executive level Management Credit Committee reviews major credit portfolios, non-performing loans, accounts under watch, overdue and credit sanctions.

Market risk

The Group takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

Market Risk and Treasury Mid Office functions have been established independent of Treasury Front Office for effective risk management and control under the leadership of the CRO. The governance framework for Market Risk includes internal board approved Market Risk policy and actively tracked Market Risk Limits in line with extant regulations and internal policies. Risk is undertaken in the book within the Investment & Trading polices of the bank & overall Risk Appetite. Market Risk ensures that all limit breaches, concentration and other relevant risks are reported to Management and Board on a timely basis.

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

Operational risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Group endeavours to effectively manage and mitigate Operational Risk through a robust and effective control environment across the organisation.

A dedicated Operational Risk Management (ORM) team, within Risk Management Department, is responsible for setting out the ORM Framework and Policy for the Bank, under the guidance of Management Risk Committee and the CRO. The team ensures that the Operational Risk Management Framework, Policy and processes are consistent with the risk profile of the Bank and overall regulatory requirement.

During this year, the Bank has reviewed and further strengthened the ORM framework, in cognizance to changes in risk and regulatory landscape. The framework incorporates revised methodology for identification, assessment, monitoring and mitigation of operational risks, which will be implemented in a phased manner.

Capital adequacy ratio

	AED'000
Risk Weighted Assets	
Credit risk	28,012,825
Market risk	19,663
Operational risk	1,988,195
Total Risk Weighted Assets	**30,020,683**
Total regulatory capital (After deduction of RAKNIC investments of AED 312,886 thousands and excluding current year profit and proposed dividend)	6,549,582
Capital adequacy ratio (excluding profit and proposed dividend)	21.82%
Total regulatory capital (After deduction of RAKNIC investments of AED 312,886 thousands and Including current year profit and post proposed dividend)	6,706,250
Capital adequacy ratio(Including profit and post proposed dividend)	22.34%
Total regulatory capital(After deduction of RAKNIC investments of AED 312,886 thousands, Including current year profit and without deducting proposed dividend)	7,209,124
Capital adequacy ratio (Including profit and without deducting proposed dividend)	24.01%

BASEL II – PILLAR 3 DISCLOSURES FOR THE YEAR

4. Credit Risk - Quantitative disclosures

Net credit exposure by currency:

At 31 December 2016 the Group had the following gross exposures:

On balance sheet items:

At 31 December 2016	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
Assets				
Due from other banks	607,961	1,754,102	267,167	2,629,230
Loans and advances (net)	25,374,851	3,337,058	13,960	28,725,869
Insurance contract assets	303,895	-	-	303,895
Investment securities	10,505	4,800,177	-	4,810,682
Other assets	236,017	98,447	2,011	336,475
Total assets	**26,533,229**	**4,898,624**	**2,011**	**36,806,151**

Off-balance sheet items:

At 31 December 2016	AED	USD	Others	Total
	AED'000	AED'000	AED'000	AED'000
Credit commitments	31,788	-	-	31,788
Guarantees, acceptances, letter of credit and other exposures	647,336	253,611	18,868	919,815
Total	**679,124**	**253,611**	**18,868**	**951,603**
Total of on and off balance sheet	**27,212,353**	**10,243,395**	**302,006**	**37,757,174**

a) Net credit exposure by geography:

The Group's activities are primarily within UAE. Exposure outside UAE are insignificant and are mainly in the form of loans and advances, investments and Inter-bank placements amounting to AED 5.1 billion, roughly 13.7 % of the total credit exposure on these lines as at 31st December 2016.

b) Gross credit exposure by Industry:

	On balance sheet items					
As at 31.12.2016	Loans and advances	Investment securities	Due from banks	Total funded	Off balance sheet Items	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2016						
Agriculture, fishing & related activities	67	-	-	67	156	223
Crude oil , gas, mining & quarrying	7,399	-	-	7,399	116,160	123,559
Manufacturing	1,345,692	20,192	-	1,365,884	42,070	1,407,954
Electricity & water	4,637	558,445	-	563,082	1,215	564,297
Construction	1,118,709	325,690	-	1,444,399	141,528	1,585,927
Trading	5,385,264	-	-	5,385,264	183,316	5,568,580
Transport, storage & communication	1,472,200	389,103	-	1,861,303	19,764	1,881,067
Financial Institutions	1,350,156	2,144,273	2,629,230	6,123,659	108,233	6,231,892
Services	3,281,408	161,384	-	3,442,792	280,509	3,723,301
Government	-	1,211,595	-	1,211,595	12,276	1,223,871
Retail and consumer banking	14,760,337	-	-	14,760,337	46,376	14,806,713
Total exposures	**28,725,869**	**4,810,682**	**2,629,230**	**36,165,781**	**951,603**	**37,117,384**

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c) Gross credit exposure by residual contractual maturity:

	Up to 3 months	3 – 12 months	1 – 3 years	3 to 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
At 31 December 2016						
Assets						
Due from other banks	1,091,482	1,380,402	157,346	-	-	2,629,230
Loans and advances	6,333,485	5,438,849	7,652,060	2,795,174	6,506,301	28,725,869
Investment securities	4,810,682	-	-	-	-	4,810,682
Insurance contract assets and receivables	70,378	211,045	20,516	1,956	-	303,895
other assets	333,020	3,455	-	-	-	336,475
Total	**12,639,047**	**7,033,751**	**7,829,922**	**2,797,130**	**6,506,301**	**36,806,151**

Off-balance sheet items:

	No later than 1 year	1 – 5 years	Over 5 years	Total
	AED'000	AED'000	AED'000	AED'000
At 31 December 2016				
Credit commitments	31,788	-	-	31,788
Guarantees, acceptances and other financial facilities	764,737	130,075	25,003	919,815
Total	**796,525**	**130,075**	**25,003**	**951,603**

5. Impairment and provisioning – Qualitative disclosures

a) Past Due and impaired loans with provisioning:

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

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

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral; and
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

(i) adverse changes in the payment status of borrowers in the portfolio; and
(ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists either individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. 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

BASEL II – PILLAR 3 DISCLOSURES FOR THE YEAR

being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

When a loan is uncollectable, it is written off against the related provision for impairment. This is normally done within six to twelve 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 consolidated income statement. Subsequent recoveries are credited to the consolidated income statement.

Impaired loan by industry segment:

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

	Less than 90 days	Overdue above 90 Days	Total	Specific Provision
	AED'000	AED'000	AED'000	AED'000
31 December 2016				
Manufacturing	347	48,271	48,618	27,683
Construction	1,891	54,984	56,875	46,351
Trading	10,521	456,726	467,247	411,634
Transport, storage & communication	1,485	54,368	55,853	47,918
Services	10,654	124,939	135,593	119,382
Retail and consumer banking	47,059	438,213	485,272	283,660
Total impaired loans	**71,957**	**1,177,501**	**1,249,458**	**936,628**

Past Due and impaired loans with provisioning:

The total impairment provision for loans and advances is AED 1,053.4 million (2015: AED 744.6 million) of which AED 936.6 million (2015: AED 657.9 million) represents provision in respect of the individually impaired loans and advances and the remaining AED 116.8 million (2015: AED 86.7 million) represents the portfolio provision to reflect the risk inherent in the Group's loan portfolio.

a) Impaired loan by geographical distribution

As at 31st December 2016 the total impaired loans outstanding of nonresident customer is AED 5,719 thousands. Out of which AED 5,704 thousands are mortgage loans backed by collateral.

b) Reconciliation of Changes in provision of impaired loans:

	Impairment Provisions	
	Specific	General Portfolio
	AED'000	AED'000
Opening Balance as at 01 Jan 2016	657,903	86,697
Net impairment charge for the year	1,847,665	30,105
Written off during the year	(1,568,941)	-
Balance as at 31 Dec 2016	**936,627**	**116,802**

BASEL II – PILLAR 3 DISCLOSURES FOR THE YEAR

6. Credit risk weighted assets – Quantitative disclosures

	On and off balance sheet Net outstanding	Exposure before CRM	Credit Risk Mitigation (CRM) CRM	After CRM	On and off balance sheet Net exposure after credit conversion factors	Risk weighted Assets
	AED '000	AED '000	AED '000	AED '000	AED '000	AED '000
31 December 2016						
Claims on sovereigns	4,823,072	4,823,072	-	4,823,072	4,823,072	85,437
Claims on PSE's	325,945	325,945	-	325,945	325,945	11,539
Claims on banks	5,742,371	5,742,371	-	5,742,371	5,742,371	3,609,781
Claims on corporates	9,460,302	9,460,302	316,581	9,143,721	6,778,708	6,172,325
Claims included in the regulatory retail portfolio	25,126,759	25,054,177	32,181	25,021,995	18,919,641	14,603,190
Claims secured by residential property	3,265,257	3,265,257	-	3,265,257	3,246,744	1,320,972
Claims secured by commercial real estate	7,652	7,652	-	7,652	7,652	7,652
Past due loans	1,637,355	483,689	-	483,689	483,689	923,759
Other assets	2,464,220	2,464,220	-	2,464,220	2,464,220	1,278,170
Total claims	**52,852,933**	**51,626,685**	**348,762**	**51,277,922**	**42,792,042**	**28,012,825**
Of which:						
Rated exposure		8,127,414				
Unrated exposure		43,499,270				

The rated exposure pertains to interbank placements and investments. All other exposures are unrated.

The group has used only those ECAI's (External Credit Assessment Institutions) which are approved by the Central Bank of UAE namely Moody's, Fitch and Standard & Poor's.

7. Credit risk mitigation:

a) Qualitative disclosure:

The group manages, limits and controls concentration of credit risk wherever it is identified – in particular, to individual counterparties and groups, and to industries and countries. The group has a Product Program Guide that sets limits of exposure and lending criteria. The group also has credit limits that set out the lending and borrowing limits to/from other banks. Further mortgage loans and auto loans, which together represent a significant portion of loans and advances, are backed by collateral.

The Group stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Credit Committee and the Board of Directors.

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

b) Quantitative disclosure:

	Exposure	Risk Weighted Assets
	AED '000	AED '000
Gross exposure prior to Credit Risk Mitigation	51,626,685	28,357,971
Less: Exposures covered by eligible financial collateral	(348,763)	(345,146)
Net Exposures after Credit Risk Mitigation	**51,277,922**	**28,012,825**

The eligible financial collaterals above include cash and deposits.

8. Market Risk:

a) Capital requirement for Market risk under standardized approach:

	Risk weighted asset	Capital charge
	AED '000	AED '000
Interest rate risk-Trading book	6,683	802
Foreign exchange risk	6,094	731
Options risk	6,886	827
Total Market Risk	**19,663**	**2,360**

Capital charge for year ended 31 December 2016 has been calculated at 12%.

Equity risk:

As at 31 December 2016, the Group did not have any equity securities in its trading book. All equity investments are under available for sale category.

Interest rate risk:

Interest rate risk arises due to mismatches of fixed interest rate assets and floating rate interest rate liabilities. This is monitored through the use of detailed gap report and stress testing. Refer to Note number 39 of the audited financial statement for details of Interest rate risk.

9. Operational Risk:

The Group follows Alternative Standardized Approach (ASA) for calculation of Operational Risk Capital.

The Group has a formal Operational Risk governance structure. The Risk Management Committee provides strategic direction and oversight on Operational Risk management processes.

The Group endeavours to monitor and minimise the Operational Risk exposure through Key risk indicators, and recording and tracking of Operational Risk Events and losses.

The calculation of capital requirement for Operational Risk under Alternative Standardised Approach is a follows:

	Three year Average	M Factor	Beta Factor	Capital Charge	Capital charge (UAE) Basel Capital charge * 1.5	RWA = Capital Charge x 8.333*
	AED '000			AED '000	AED '000	AED '000
Trading and Sales	203,485	-	18%	36,627	54,941	457,840
Commercial Banking	3,154,372	0.035	15%	16,560	24,841	207,006
Retail Banking	25,206,644	0.035	12%	105,868	158,802	1,323,349
Operational Risk					238,584	1,988,195

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

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