

REVIEW REPORT AND INTERIM FINANCIAL INFORMATION

January 1, 2020 to September 30, 2020



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

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Review report on condensed consolidated interim financial information to the Board of Directors of The National Bank of Ras Al-Khaimah (P.S.C.)

Introduction

We have reviewed the accompanying condensed consolidated interim statement of financial position of The National Bank of Ras Al-Khaimah (P.S.C.) ("the Bank") and its subsidiaries (together "the Group") as at 30 September 2020 and the related condensed consolidated interim statements of profit or loss, comprehensive income for the three-month and nine-month periods then ended, and the condensed consolidated interim statements of changes in equity and cash flows for the nine-month periods then ended, and other explanatory information. Management is responsible for the preparation and presentation of the condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on the condensed consolidated interim financial information based on our review.

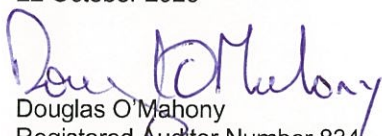
Scope of our review

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

Conclusion

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

PricewaterhouseCoopers
22 October 2020


Douglas O'Mahony
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Condensed consolidated interim statement of financial position as at 30 September 2020

| | Notes | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|--|-------|---|---|
| ASSETS | | | |
| Cash and balances with UAE Central Bank | 4 | 3,612,021 | 4,785,504 |
| Due from other banks, net | 5 | 7,840,667 | 6,593,233 |
| Investment securities, net | 6 | 7,589,394 | 8,141,433 |
| Loans and advances, net | 7 | 30,420,950 | 34,550,563 |
| Insurance contract assets and receivables, net | | 416,574 | 440,481 |
| Customer acceptances | | 116,208 | 424,265 |
| Other assets | 8 | 1,236,483 | 1,009,125 |
| Property and equipments | | 809,403 | 831,630 |
| Right-of-use assets | 31 | 119,562 | 176,939 |
| Goodwill and other intangible assets | | 166,386 | 166,386 |
| Total assets | | 52,327,648 | 57,119,559 |
| LIABILITIES AND EQUITY | | | |
| Liabilities | | | |
| Due to other banks | 9 | 4,405,269 | 4,977,055 |
| Deposits from customers | 10 | 34,204,591 | 36,826,360 |
| Customer acceptances | | 116,208 | 424,265 |
| Debt securities issued and other long term borrowing | 11 | 3,610,690 | 4,888,881 |
| Insurance contract liabilities and payables | | 557,154 | 556,374 |
| Other liabilities | 12 | 1,628,341 | 1,453,357 |
| Lease liabilities | 32 | 100,082 | 151,710 |
| Total liabilities | | 44,622,335 | 49,278,002 |
| Equity | | | |
| Share capital | 13 | 1,676,245 | 1,676,245 |
| Legal reserve | | 950,431 | 950,431 |
| Retained earnings | | 1,948,524 | 2,015,353 |
| Other reserves | | 3,090,034 | 3,161,700 |
| Equity attributable to owners of the Bank | | 7,665,234 | 7,803,729 |
| Non-controlling interests | | 40,079 | 37,828 |
| Total equity | | 7,705,313 | 7,841,557 |
| Total Liabilities and Equity | | 52,327,648 | 57,119,559 |


Peter William England
 Chief Executive Officer

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

Condensed consolidated interim statement of profit or loss (un-audited) for the period from 1 January 2020 to 30 September 2020

| | Notes | Three months period ended 30 September | | Nine months period ended 30 September | |
|--|-------|---|---------------------------------|--|---------------------------------|
| | | 2020 (un-audited) AED'000 | 2019 (un-audited) AED'000 | 2020 (un-audited) AED'000 | 2019 (un-audited) AED'000 |
| Interest income | 16 | 576,290 | 800,159 | 1,980,687 | 2,378,285 |
| Interest expense | 16 | (83,875) | (164,161) | (345,306) | (526,330) |
| Net interest income | | 492,415 | 635,998 | 1,635,381 | 1,851,955 |
| Income from Islamic financing | 17 | 131,192 | 133,363 | 431,857 | 371,085 |
| Distribution to depositors | 17 | (22,524) | (57,225) | (103,488) | (131,383) |
| Net income from Islamic financing | | 108,668 | 76,138 | 328,369 | 239,702 |
| Net interest income and net income from Islamic financing | | 601,083 | 712,136 | 1,963,750 | 2,091,657 |
| Net fees and commission income | 18 | 157,723 | 195,744 | 489,981 | 593,226 |
| Foreign exchange & derivative income | | 50,426 | 59,974 | 149,611 | 182,039 |
| Gross insurance underwriting profit | | 9,639 | 8,587 | 36,230 | 29,443 |
| Investment income | 19 | 20,984 | 9,135 | 59,477 | 42,806 |
| Other operating income | | 12,666 | 19,025 | 57,397 | 59,156 |
| Non-interest income | | 251,438 | 292,465 | 792,696 | 906,670 |
| Operating income | | 852,521 | 1,004,601 | 2,756,446 | 2,998,327 |
| General and administrative expenses | 20 | (325,692) | (394,662) | (1,031,633) | (1,175,024) |
| Operating profit before provision for credit loss | | 526,829 | 609,939 | 1,724,813 | 1,823,303 |
| Provision for credit loss, net | 21 | (394,805) | (325,453) | (1,286,171) | (983,891) |
| Profit for the period | | 132,024 | 284,486 | 438,642 | 839,412 |
| Attributed to: | | | | | |
| Owners of the Bank | | 130,890 | 284,615 | 436,044 | 839,126 |
| Non-controlling interests | | 1,134 | (129) | 2,598 | 286 |
| Profit for the period | | 132,024 | 284,486 | 438,642 | 839,412 |
| Earnings per share: | | | | | |
| Basic and diluted in AED | 22 | 0.08 | 0.17 | 0.26 | 0.50 |

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

Condensed consolidated interim statement of comprehensive income (un-audited) for the period from 1 January 2020 to 30 September 2020

| | Three months period ended 30 September | | Nine months period ended 30 September | |
|--|---|---------------------------------|--|---------------------------------|
| | 2020 (un-audited) AED'000 | 2019 (un-audited) AED'000 | 2020 (un-audited) AED'000 | 2019 (un-audited) AED'000 |
| Profit for the period | 132,024 | 284,486 | 438,642 | 839,412 |
| Other comprehensive income: | | | | |
| <u>Items that will not be reclassified subsequently to profit or loss:</u> | | | | |
| Profit / (Loss) on sale of equity investments held at fair value through other comprehensive income | - | 6,406 | - | (11,162) |
| Changes in fair value of financial assets measured at fair value through other comprehensive income, net (equity instruments) | 19,728 | (3,853) | (29,760) | 19,004 |
| <u>Items that may be reclassified subsequently to profit or loss:</u> | | | | |
| Changes in fair value of financial assets measured at fair value through other comprehensive income, net (debt instruments) | 49,848 | 25,360 | (25,692) | 89,688 |
| Loss / (profit) on sale of debt instruments transferred to profit and loss | (13,005) | (7,646) | (31,159) | (14,259) |
| Net changes in fair value arising from cash flow hedges | 4,311 | 670 | 14,598 | 8,653 |
| Other comprehensive income /(loss) for the period | 60,882 | 20,937 | (72,013) | 91,924 |
| Total comprehensive income for the period | 192,906 | 305,423 | 366,629 | 931,336 |
| Attributed to: | | | | |
| Owners of the Bank | 192,180 | 305,381 | 364,378 | 930,173 |
| Non-controlling interests | 726 | 42 | 2,251 | 1,163 |
| Total comprehensive income for the period | 192,906 | 305,423 | 366,629 | 931,336 |

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

Condensed consolidated interim statement of changes in equity for the period from 1 January 2020 to 30 September 2020

| | Share capital AED'000 | Legal reserve AED'000 | Retained earnings AED'000 | Other reserves AED'000 | Equity attributable to owners of the Bank AED'000 | Non- controlling interests AED'000 | Total AED'000 |
|--|-----------------------------|-----------------------------|---------------------------------|------------------------------|---|---|------------------|
| Balance at 31 December 2018 (audited) | 1,676,245 | 950,431 | 1,479,856 | 3,007,575 | 7,114,107 | 45,868 | 7,159,975 |
| Prior year adjustment related to insurance business | - | - | (25,427) | - | (25,427) | (6,665) | (32,092) |
| Restated opening balance as at 1 January 2019 | 1,676,245 | 950,431 | 1,454,429 | 3,007,575 | 7,088,680 | 39,203 | 7,127,883 |
| Profit for the period | - | - | 839,126 | - | 839,126 | 286 | 839,412 |
| Other comprehensive income | - | - | (11,162) | 102,209 | 91,047 | 877 | 91,924 |
| Total comprehensive income for the period | - | - | 827,964 | 102,209 | 930,173 | 1,163 | 931,336 |
| Dividend paid | - | - | (502,873) | - | (502,873) | (2,285) | (505,158) |
| Directors' remuneration | - | - | (4,673) | - | (4,673) | - | (4,673) |
| At 30 September 2019 (un-audited) | 1,676,245 | 950,431 | 1,774,847 | 3,109,784 | 7,511,307 | 38,081 | 7,549,388 |
| Balance at 31 December 2019 (audited) | 1,676,245 | 950,431 | 2,015,353 | 3,161,700 | 7,803,729 | 37,828 | 7,841,557 |
| Profit for the period | | | 436,044 | - | 436,044 | 2,598 | 438,642 |
| Other comprehensive income | | | | (71,666) | (71,666) | (347) | (72,013) |
| Total comprehensive income for the period | | | 436,044 | (71,666) | 364,378 | 2,251 | 366,629 |
| Dividend paid | - | - | (502,873) | - | (502,873) | - | (502,873) |
| At 30 September 2020 (un-audited) | 1,676,245 | 950,431 | 1,948,524 | 3,090,034 | 7,665,234 | 40,079 | 7,705,313 |

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

Condensed consolidated interim statement of cash flows (un-audited) for the period from 1 January 2020 to 30 September 2020

| | Nine months period ended 30 September | |
|--|---------------------------------------|---------------------------------|
| | 2020 (un-audited) AED'000 | 2019 (un-audited) AED'000 |
| Cash flows from operating activities | | |
| Profit for the period | 438,642 | 839,412 |
| Adjustments: | | |
| Provision for credit losses, net | 1,286,171 | 983,891 |
| Depreciation of property and equipment | 89,744 | 83,761 |
| Depreciation of Right-of-use assets | 27,368 | 29,135 |
| Interest cost on lease liability | 4,176 | 5,828 |
| Gain on rent concessions due to COVID-19 | (3,416) | - |
| Amortization of intangible assets | - | 1,337 |
| Loss /(gain) on disposal of property and equipment | 299 | (67) |
| Amortization of discount relating to investments securities | (104,661) | (86,959) |
| Gain on sale of investment securities | (63,525) | (24,065) |
| Fair value (gain)/loss on investments and hedges | (36,936) | 1,460 |
| Amortization premium of debt securities | 7,360 | 13,172 |
| | 1,645,222 | 1,846,905 |
| Changes in operating assets and liabilities | | |
| Decrease in deposits with the UAE Central Bank | 1,540,419 | 82,614 |
| Decrease /(Increase) in due from other banks with original maturities of three month or over | 460,776 | (1,588,716) |
| Decrease /(Increase) in loans and advances, net | 2,852,921 | (2,659,105) |
| Decrease / (Increase) in insurance contract assets & receivables | 18,916 | (57,902) |
| Decrease/ (Increase) in other assets | 80,629 | (263,605) |
| Decrease in due to other banks | (571,786) | (55,503) |
| (Decrease) / increase in deposits from customers | (2,621,769) | 2,316,207 |
| Increase in insurance contract liabilities and payables | 780 | 52,714 |
| (Decrease) / Increase in other liabilities | (116,062) | 632,013 |
| Net cash generated from operating activities | 3,290,046 | 305,622 |
| Cash flows from investing activities | | |
| Purchase of investment securities | (5,055,980) | (5,570,194) |
| Proceeds from maturity/disposal of investment securities | 5,720,951 | 4,893,754 |
| Purchase of property and equipment | (68,180) | (53,718) |
| Proceeds from disposal of property and equipment | 366 | 67 |
| Net cash generated from / (used in) investing activities | 597,157 | (730,091) |
| Cash flows from financing activities | | |
| Dividends paid | (502,873) | (505,158) |
| Directors' remuneration | - | (4,673) |
| Payment for rentals on lease contracts | (22,310) | (30,576) |
| Payment of debt security and other borrowings | (1,285,550) | (2,562,803) |
| Issue of debt security and other borrowings | - | 2,609,943 |
| Net cash used in financing activities | (1,810,733) | (493,267) |
| Net increase / (decrease) in cash and cash equivalents | 2,076,470 | (917,736) |
| Cash and cash equivalents, beginning of the period | 1,903,424 | 2,422,692 |
| Cash and cash equivalents, end of the period (Note 24) | 3,979,894 | 1,504,956 |

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

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020

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 twenty seven branches in the UAE.

At 30 September 2020, The National Bank of Ras Al-Khaimah (P.S.C) comprises the Bank and five subsidiaries (together referred to as the “Group”). The condensed consolidated interim financial information for the nine month period ended 30 September 2020 comprises the Bank and following direct subsidiaries:

| <i>Subsidiary</i> | <i>Authorized & Ownership issued capital interest</i> | <i>Incorporated</i> | <i>Principal Activities</i> |
|---|---|---------------------|--|
| Ras Al Khaimah National Insurance Company PSC | AED 121.275 million 79.23% | UAE | All type of insurance business. |
| 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 | Authorized USD 50,000 Issued USD 100 100% | Cayman Islands | To facilitate the issue Euro medium term notes (EMTN) under the Bank’s EMTN program. |
| Rak Global Markets Cayman Limited | Authorized USD 50,000 Issued USD 1 100% | Cayman Islands | To facilitate Treasury transactions. |

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

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

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

The following new and revised IFRSs, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in this condensed consolidated interim financial information. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 3 - This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.
- Amendments to IAS 1 and IAS 8 - These amendments to IAS 1, ‘Presentation of financial statements’, and IAS 8, ‘Accounting policies, changes in accounting estimates and errors’, and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.
- Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform - These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries.
- Amendments to Conceptual framework – The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:
 - increasing the prominence of stewardship in the objective of financial reporting
 - reinstating prudence as a component of neutrality
 - defining a reporting entity, which may be a legal entity, or a portion of an entity
 - revising the definitions of an asset and a liability
 - removing the probability threshold for recognition and adding guidance on derecognition
 - adding guidance on different measurement basis, and
 - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

- Amendment to IFRS 16, ‘Leases’ – Covid-19 related rent concessions - As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

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

2.2 New and revised IFRS in issue but not yet effective

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

| <i>New and revised IFRSs</i> | <i>Effective for annual periods beginning on or after</i> |
|---|--|
| IFRS 17 Insurance Contracts | January 1, 2023 |
| IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023. | |
| Amendments to IAS 1 | January 1, 2022 |
| Presentation of financial statements on classification of liabilities - These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability. | |

**Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – 1 January 2021
interest rate benchmark (IBOR) reform**

The Phase 2 amendments that were issued on 27 August 2020 address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform (for example, where lease payments are indexed to an IBOR rate). The management is running a project on the transition activities and continues to engage with various stakeholders to support an orderly transition and to mitigate the risks resulting from the transition. The project is significant in terms of scale and complexity and will impact products, internal systems and processes.

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

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

3. Significant accounting policies

The significant accounting policies applied in the preparation of this condensed consolidated interim financial information are set out below. These policies have been consistently applied for the period/years presented, unless otherwise stated.

(a) Basis of preparation

The condensed consolidated interim financial information of the Group is 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 condensed consolidated interim financial information is prepared in accordance with International Accounting Standard 34: Interim Financial Reporting ("IAS 34"), issued by the International Accounting Standard Board (IASB) and also complies with the applicable requirements of the laws in the U.A.E.

The accounting policies used in the preparation of this condensed consolidated interim financial information are consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2019.

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

The condensed consolidated interim financial information does not include all the information required for full annual consolidated financial statements and should be read in conjunction with the Group's audited annual consolidated financial statements as at and for the year ended 31 December 2019. In addition, results for the nine months period ended 30 September 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

(b) Consolidation

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

i) Subsidiaries

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

3. Significant accounting policies (continued)

(b) Consolidation (continued)

ii) Transactions eliminated on consolidation

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

iii) Acquisition accounting

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

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

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

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

(c) Islamic financing

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

i) Murabaha financing

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

3. Significant accounting policies (continued)

(c) Islamic financing (continued)

ii) Salam

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

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

iii) Mudaraba

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

iv) Wakala

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

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

v) Ijara

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

(d) Cash and cash equivalents

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

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

4. Cash and balances with UAE Central Bank

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|---|---|---|
| Cash in hand | 672,667 | 867,233 |
| Overnight placement with UAE Central bank | 650,000 | - |
| Balances with the UAE Central Bank | 190,866 | 279,364 |
| Statutory deposit with the UAE Central Bank (a) | 1,773,488 | 3,238,907 |
| Certificates of deposit with the UAE Central Bank (b) | 325,000 | 400,000 |
| | 3,612,021 | 4,785,504 |

- (a) The statutory deposit with the UAE Central Bank is not available to finance the day to day operations of the Group.
- (b) Central bank certificates of deposit with value of AED 291.76 million have been given as collateral for zero cost repurchase agreement of AED 291.76 million under UAE Central bank Targeted Economic Support Scheme ("TESS") programme (note 9)

5. Due from other banks, net

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|-----------------------------|---|---|
| Placements with other banks | 1,823,213 | 447,445 |
| Demand deposits | 884,694 | 455,628 |
| Banker's acceptances | 2,488,228 | 2,812,694 |
| Syndicated loans | 2,620,873 | 2,845,259 |
| Others | 54,063 | 61,287 |
| Total due from other banks | 7,871,071 | 6,622,313 |
| Provision for credit loss | (30,404) | (29,080) |
| Net due from other banks | 7,840,667 | 6,593,233 |

The below represents deposits and balances due from:

| | | |
|-----------------------------------|------------------|------------------|
| Banks in UAE | 1,661,065 | 478,977 |
| Banks outside UAE | 6,210,006 | 6,143,336 |
| Total due from other banks | 7,871,071 | 6,622,313 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

6 Investment securities, net

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|--|---|---|
| Securities at fair value through other comprehensive income | | |
| Quoted equity securities | 233,839 | 161,776 |
| Unquoted equity securities | 2,612 | 2,612 |
| Quoted debt securities* | 2,543,855 | 2,453,870 |
| | 2,780,306 | 2,618,258 |
| Securities at fair value through profit or loss | | |
| Quoted funds | 125,821 | 37,641 |
| Unquoted funds | 41,581 | 42,083 |
| Quoted debt securities | 35,635 | 257,418 |
| | 203,037 | 337,142 |
| Securities held at amortised cost | | |
| Quoted debt securities* | 4,268,347 | 4,749,913 |
| Unquoted debt securities | 361,225 | 464,386 |
| | 4,629,572 | 5,214,299 |
| Total investment securities | 7,612,915 | 8,169,699 |
| Provision for credit loss | (23,521) | (28,266) |
| Net investment securities | 7,589,394 | 8,141,433 |

*As at 30 September 2020, quoted debt securities with fair value of AED 480 million (31 December 2019: AED 1,637 million) have been given as collateral against repo borrowings of AED 435 million (31 December 2019: AED 1,594 million). Also quoted debt securities with fair value AED 1,375.92 million as at 30 September 2020 (31 December 2019: Nil) have been given as collateral for UAE Central Bank zero cost term deposit under "TESS" programme [Note 9].

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

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|--|---|---|
| Federal and local Government – UAE | 628,200 | 441,515 |
| Government related entity - UAE | 1,135,627 | 1,088,673 |
| Government - GCC | 409,641 | 1,165,760 |
| Government - other | 992,004 | 1,528,764 |
| Banks and financial institutions - UAE | 599,156 | 713,749 |
| Banks and financial institutions - GCC | 366,249 | 244,607 |
| Banks and financial institutions - other | 1,321,160 | 1,265,947 |
| Public limited companies - UAE | 448,145 | 458,536 |
| Public limited companies - GCC | 497,171 | 294,522 |
| Public limited companies - other | 811,709 | 723,514 |
| Total debt securities | 7,209,062 | 7,925,587 |
| Quoted equity securities | 233,839 | 161,776 |
| Quoted funds | 125,821 | 37,641 |
| Unquoted funds | 41,581 | 42,083 |
| Unquoted equity securities | 2,612 | 2,612 |
| Total investment securities | 7,612,915 | 8,169,699 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

7 Loans and advances, net

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|--------------------------------------|---|---|
| (a) Loans and advances: | | |
| Retail banking loans | 16,981,679 | 18,715,661 |
| Wholesale banking loans | 8,355,249 | 9,418,422 |
| Business banking loans | 7,254,511 | 8,128,045 |
| Total loans and advances [Note 7(b)] | 32,591,439 | 36,262,128 |
| Provision for impairment [Note 7(c)] | (2,170,489) | (1,711,565) |
| Net loans and advances | 30,420,950 | 34,550,563 |

(b) Analysis of loans and advances:

| | | |
|---------------------------------|-------------------|-------------------|
| Personal loans | 6,511,197 | 7,222,957 |
| Mortgage loans | 5,386,156 | 5,380,041 |
| Credit cards | 2,326,881 | 3,121,075 |
| Auto loans | 612,676 | 868,125 |
| RAK business loans | 3,767,583 | 4,099,197 |
| Other business banking loans | 3,486,928 | 4,028,848 |
| Wholesale banking loans | 8,355,249 | 9,418,422 |
| Other retail loans | 2,144,769 | 2,123,463 |
| Total loans and advances | 32,591,439 | 36,262,128 |

(c) Provision for credit loss:

| | | |
|--|------------------|------------------|
| Balance at the beginning of the period/year | 1,711,565 | 1,966,612 |
| Impairment allowance for the period/year | 1,335,622 | 1,399,022 |
| Written-off during the period/year | (876,698) | (1,654,069) |
| Balance at the end of the period/year | 2,170,489 | 1,711,565 |

(d) Provision for credit loss /release on loans and advances, net of recovery - for the Nine months period ended:

| | 30 September 2020 (un-audited) AED'000 | 30 September 2019 (un-audited) AED'000 |
|---|---|---|
| Impairment allowance for the period | 1,335,622 | 1,027,963 |
| Net recovery during the period | (58,930) | (66,294) |
| Net impairment charge for the period (Note 21) | 1,276,692 | 961,669 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

7 Loans and advances, net (continued)

(e) Provision for credit loss/release on loans and advances, net of recovery - for the three months period ended:

| | 30 September 2020 (un-audited) AED'000 | 30 September 2019 (un-audited) AED'000 |
|---|---|---|
| Impairment allowance for the period | 415,289 | 332,656 |
| Net recovery during the period | (23,890) | (23,882) |
| Net impairment charge for the period (Note 21) | 391,399 | 308,774 |

(f) Islamic financing assets

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

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|---------------------------------------|---|---|
| i) Islamic financing assets | | |
| Islamic retail financing assets | 3,317,582 | 3,508,781 |
| Islamic business banking assets | 2,053,774 | 2,043,967 |
| Islamic wholesale banking assets | 980,058 | 1,083,011 |
| Total Islamic financing assets | 6,351,414 | 6,635,759 |
| Provision for credit loss | (395,061) | (288,385) |
| | 5,956,353 | 6,347,374 |

ii) Analysis of Islamic financing assets

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|----------------------------------|---|---|
| Islamic Salam personal finance | 2,247,205 | 2,390,269 |
| Islamic auto Murabaha | 99,976 | 160,162 |
| Islamic Business banking finance | 2,053,774 | 2,043,967 |
| Islamic Ijara property finance | 900,754 | 869,109 |
| Islamic credit cards | 68,878 | 86,731 |
| Islamic wholesale banking | 980,058 | 1,083,011 |
| Islamic finance - other | 769 | 2,510 |
| | 6,351,414 | 6,635,759 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

8 Other assets

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|---|---|---|
| Interest receivable | 268,066 | 322,003 |
| Profit receivable on Islamic financing assets | 43,796 | 63,618 |
| Prepayments and deposits | 60,676 | 48,231 |
| Interest rate swaps and other derivatives | 620,907 | 338,403 |
| Insurance related receivables and assets | 28,738 | 42,312 |
| Gold on hand | 87,383 | 33,069 |
| Islamic profit paid in advance | 14,462 | 18,977 |
| Others | 112,455 | 142,512 |
| | 1,236,483 | 1,009,125 |

9 Due to other banks

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|---|---|---|
| Term borrowings | 2,547,562 | 3,306,567 |
| Repurchase agreements (Note 6) | 434,600 | 1,593,659 |
| UAE Central Bank zero cost repurchase agreement under "TESS" programme* | 1,421,771 | - |
| Demand deposits | 1,336 | 76,829 |
| | 4,405,269 | 4,977,055 |

***Breakdown of UAE Central bank zero cost repurchase agreements (Repo)**

| | AED'000 |
|---|------------------|
| UAE Central Bank zero cost repo against quoted debt securities | 1,130,011 |
| UAE Central Bank zero cost repo against central bank certificate of deposit | 291,760 |
| | 1,421,771 |

Under UAE Central Bank Targeted Economic Support Scheme ("TESS") programme the Bank has received zero cost deposits totalling AED 1,421.77 million. Central bank certificates of deposit of AED 291.76 million and quoted debt securities with fair value of AED 1,375.92 million as at 30 September 2020 have been given as collateral.

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

10 Deposits from customers

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|------------------|---|---|
| Time deposits | 9,222,303 | 13,891,359 |
| Current accounts | 20,168,187 | 18,434,769 |
| Saving deposits | 3,648,081 | 3,275,754 |
| Call deposits | 1,166,020 | 1,224,478 |
| | <u>34,204,591</u> | <u>36,826,360</u> |

Deposits include AED 1,328 million (31 December 2019: AED 1,420 million) held by the Group as cash collateral for loans and advances granted to customers.

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

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|-----------------------------------|---|---|
| Wakala deposits | 1,173,490 | 2,881,992 |
| Mudaraba term investment deposits | 27,098 | 15,690 |
| Murabaha Term Deposit | 924,861 | 1,184,065 |
| Qard-E-Hassan - current accounts | 860,895 | 831,169 |
| Mudaraba - current accounts | 505,389 | 451,227 |
| Mudaraba - saving accounts | 217,289 | 228,079 |
| Mudaraba - call deposits | 15,919 | 21,283 |
| | <u>3,724,941</u> | <u>5,613,505</u> |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

11 Debt securities in issue and other long term borrowings

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|---|---|---|
| USD 500 million medium term note issued at discount in April 2019 (a) | 1,832,397 | 1,831,598 |
| USD 50 million private placement at discount in July 2017 (a) | 183,425 | 183,220 |
| USD 145 million private placement net of discount (a) | 526,586 | 524,996 |
| USD 350 million syndicated borrowing (b) | - | 1,285,550 |
| USD 80 million bilateral borrowing (c) | 293,840 | 293,840 |
| SAR 800 million Islamic bilateral borrowing (d) | 783,406 | 783,302 |
| Less: Debt securities and other borrowing issue costs | (8,964) | (13,625) |
| | 3,610,690 | 4,888,881 |

- (a) In April 2019, the Group issued five-year USD 500 million Euro Medium Term Notes (EMTN) under its USD 2 billion EMTN programme through its subsidiary RAK Funding Cayman limited. This was issued at a discounted rate of 99.692% and carries a fixed interest rate of 4.125% per annum which is payable half yearly in arrears. These notes mature in April 2024.

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

The Group issued USD 145 million of floating rate notes in March 2018 through a private placement with an interest rate of USD 3 months LIBOR +1.4% which mature in March 2023.

- (b) During the third quarter of 2017, the Group arranged a three-year syndicated borrowing of USD 350 million maturing in 2020. This syndicated borrowing carries an interest rate of USD 3 months LIBOR + 1.55% per annum. On 15 July 2020, the Group has settled in advance syndicated borrowing of USD 350 million which was supposed to mature in September 2020.
- (c) In March 2018 the Group borrowed USD 80 million at an interest rate of USD 3 months LIBOR + 1.25% per annum which matures in March 2021.
- (d) In March 2019 the Group borrowed SAR 800 million at a profit rate of 3.85% per annum which matures in March 2022.

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

12. Other liabilities

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|---|---|---|
| Interest payable | 108,199 | 180,647 |
| Profit distributable on Islamic deposits | 24,653 | 66,274 |
| Accrued expenses | 195,874 | 242,261 |
| Provision for employees' end-of-service benefits | 108,221 | 115,269 |
| Foreign exchange and other derivatives derivative contracts | 738,609 | 377,378 |
| Credit card payables and liabilities | 57,565 | 48,142 |
| Managers cheques issued | 233,656 | 157,663 |
| Mortgage payables and liabilities | 18,668 | 7,151 |
| Insurance related payables and liabilities | 46,929 | 48,213 |
| Provision for credit loss on contingent assets and customer acceptances | 8,726 | 11,138 |
| Other | 87,241 | 199,221 |
| | 1,628,341 | 1,453,357 |

13. Share capital and dividend

At 30 September 2020, the authorised, issued and fully paid share capital of the Bank comprised 1,676 million shares of AED 1 each (31 December 2019: 1,676 million shares of AED 1 each).

At the meeting held on 30 March 2020, the shareholders of the Bank approved a cash dividend of 30% amounting to AED 503 million of the issued and paid up capital in respect of the year ended 31 December 2019 (2018: 30% cash dividend amounting to AED 503 million).

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

14. Contingencies and commitments

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|--|---|---|
| Irrevocable commitments to extend credit | 2,553,894 | 2,597,848 |
| Letters of guarantee - Financial | 498,114 | 363,087 |
| Letters of guarantee - Non-Financial | 605,161 | 467,512 |
| Letters of credit | 416,115 | 328,514 |
| Capital commitments and others | 50,606 | 33,379 |
| | 4,123,890 | 3,790,340 |

The Group is holding AED 8.55 million (31 December 2019: AED 10.72 million) provision for expected credit loss on contingencies and commitments as per IFRS 9.

Commitments to extend credit shown above represent unfunded amounts out of approved limits offered to customers, which are irrevocable by the Group. Commitments to extend credit amounting to AED 6,417 million (31 December 2019: AED 7,661 million) are revocable at the option of the Group and not included in the above table.

15. Forward foreign exchange and other derivative contracts

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

Outstanding forward foreign exchange contracts, interest rate swaps and other derivative contracts at 30 September 2020 and 31 December 2019 are as follows:

| | Fair Values | | |
|----------------------------|---------------------------|------------------------------|-----------------------------|
| | Assets AED'000 | Liability AED'000 | Notional AED'000 |
| 30 September 2020 | | | |
| Foreign exchange contracts | 78,073 | 82,948 | 12,742,005 |
| Interest rate swaps | 501,411 | 644,399 | 11,925,739 |
| Other derivative contracts | 41,423 | 11,262 | 3,559,920 |
| | 620,907 | 738,609 | 28,227,664 |
| 31 December 2019 | | | |
| Foreign exchange contracts | 127,052 | 109,746 | 12,472,086 |
| Interest rate swaps | 181,539 | 253,140 | 9,842,282 |
| Other derivative contracts | 29,812 | 14,492 | 5,585,298 |
| | 338,403 | 377,378 | 27,899,666 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

16. Interest income and expense

| | Three months period ended 30 September | | Nine months period ended 30 September | |
|---|---|----------------|--|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| | (un-audited) | (un-audited) | (un-audited) | (un-audited) |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Interest income | | | | |
| Personal loans | 76,501 | 94,307 | 249,795 | 279,256 |
| Mortgage loans | 39,510 | 49,125 | 132,041 | 145,195 |
| Credit cards | 117,190 | 156,893 | 389,356 | 482,203 |
| Auto loans | 7,634 | 13,303 | 26,688 | 45,935 |
| RAK business loans | 103,838 | 140,801 | 344,639 | 430,735 |
| Wholesale banking | 62,095 | 99,034 | 229,421 | 288,645 |
| Other business banking loans | 52,849 | 73,974 | 181,926 | 215,778 |
| Other retail banking loans | 12,288 | 18,219 | 45,221 | 54,845 |
| Investment securities | 67,366 | 88,011 | 235,294 | 252,676 |
| Deposits with the U.A.E. Central Bank | 324 | 4,813 | 6,442 | 14,307 |
| Other banks | 36,695 | 61,679 | 139,864 | 168,710 |
| | 576,290 | 800,159 | 1,980,687 | 2,378,285 |
| Interest expense | | | | |
| Due to customers | 43,255 | 99,840 | 183,421 | 291,754 |
| Debt securities issued and other borrowings | 28,936 | 40,298 | 106,356 | 165,073 |
| Borrowings from other banks | 11,684 | 24,023 | 55,529 | 69,503 |
| | 83,875 | 164,161 | 345,306 | 526,330 |

17. Income from Islamic Financing and distribution to depositors

| | Three months period ended 30 September | | Nine months period ended 30 September | |
|--|---|----------------|--|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | (un-audited) | (un-audited) | (un-audited) | (un-audited) |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Income from Islamic financing | | | | |
| Islamic Salam personal finance | 51,962 | 55,905 | 166,162 | 160,507 |
| Islamic Auto Murabaha | 1,152 | 3,274 | 5,331 | 11,966 |
| Islamic business banking finance | 54,555 | 51,278 | 180,482 | 137,353 |
| Islamic wholesale banking finance | 8,608 | 13,182 | 32,319 | 33,412 |
| Islamic investment income | 5,935 | - | 18,610 | - |
| Islamic Ijara property finance | 8,980 | 9,724 | 28,953 | 27,847 |
| | 131,192 | 133,363 | 431,857 | 371,085 |
| Distribution to depositors | | | | |
| Distribution of profit on Islamic term investment deposits | 15,121 | 49,644 | 80,976 | 121,301 |
| Bilateral long-term borrowings | 7,181 | 6,978 | 21,353 | 8,151 |
| Distribution of profit on Islamic demand deposits | 222 | 603 | 1,159 | 1,931 |
| | 22,524 | 57,225 | 103,488 | 131,383 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

18. Net fees and commission income

| | Three months period ended 30 September | | Nine months period ended 30 September | |
|------------------------|---|----------------|--|----------------|
| | 2020 | 2019 | 2020 | 2019 |
| | (un-audited) | (un-audited) | (un-audited) | (un-audited) |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Personal loans | 6,596 | 13,484 | 22,536 | 44,805 |
| Mortgage loans | 5,682 | 5,378 | 16,304 | 18,491 |
| Credit cards | 61,849 | 65,151 | 199,633 | 200,443 |
| Auto loans | 1,614 | 2,631 | 5,455 | 8,883 |
| RAK business loans | 662 | 12,137 | 11,946 | 34,828 |
| Wholesale banking | 9,296 | 14,831 | 26,909 | 48,141 |
| Other business banking | 36,031 | 42,643 | 107,006 | 122,532 |
| Fiduciary income | 17,147 | 14,011 | 44,175 | 37,480 |
| Bancassurance | 11,456 | 15,245 | 30,701 | 44,163 |
| Other | 7,390 | 10,233 | 25,316 | 33,460 |
| | 157,723 | 195,744 | 489,981 | 593,226 |

19. Investment income

| | Three months period ended 30 September | | Nine months period ended 30 September | |
|--|---|--------------|--|---------------|
| | 2020 | 2019 | 2020 | 2019 |
| | (un-audited) | (un-audited) | (un-audited) | (un-audited) |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Fair value profit /(loss) | 1,994 | (1,054) | (18,099) | 4,471 |
| Dividend income | 928 | 1,813 | 14,050 | 14,271 |
| Net gain on disposal of Investments | 18,062 | 8,376 | 63,526 | 24,064 |
| | 20,984 | 9,135 | 59,477 | 42,806 |

20. General and administrative expenses

| | Three months period ended 30 September | | Nine months period ended 30 September | |
|---|---|----------------|--|------------------|
| | 2020 | 2019 | 2020 | 2019 |
| | (un-audited) | (un-audited) | (un-audited) | (un-audited) |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Staff costs | 182,341 | 226,518 | 584,113 | 676,858 |
| Outsourced staff costs | 6,473 | 10,374 | 31,120 | 24,648 |
| Occupancy costs | 19,508 | 24,390 | 61,003 | 74,798 |
| Marketing expenses | 2,876 | 9,582 | 18,928 | 28,674 |
| Depreciation and amortisation | 31,885 | 28,615 | 89,744 | 85,098 |
| Communication costs and Nostro charges | 11,435 | 16,152 | 35,917 | 42,541 |
| Legal and collection charges | 8,605 | 12,149 | 26,496 | 35,729 |
| Information and technology expenses | 32,593 | 31,371 | 88,346 | 87,536 |
| Other | 29,976 | 35,511 | 95,966 | 119,142 |
| | 325,692 | 394,662 | 1,031,633 | 1,175,024 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

21. Provision for credit loss, net

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

| | Nine months period ended 30 September | |
|--|--|---------------------|
| | 2020 | 2019 |
| | (un-audited) | (un-audited) |
| | AED'000 | AED'000 |
| Net credit loss charge on loans and advances | 1,276,692 | 961,669 |
| Net credit loss charge on due from other banks | 1,324 | 6,465 |
| Net credit loss charge on investment securities | 5,576 | 10,919 |
| Net credit loss charge on insurance contracts | 4,991 | 2,506 |
| Net impairment charge /(release) on customer acceptances | (246) | 231 |
| Net impairment (release) on off balance sheet items | (2,166) | 2,101 |
| Net credit loss charge for the period | 1,286,171 | 983,891 |

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

| | Three months period ended 30 September | |
|--|---|----------------|
| | 2020 | 2019 |
| | AED'000 | AED'000 |
| Net credit loss charge on loans and advances | 391,399 | 308,774 |
| Net credit loss charge on due from other banks | 1,138 | 4,665 |
| Net credit loss on investment securities | 1,056 | 6,906 |
| Net credit loss charge on insurance contracts | 123 | 287 |
| Net impairment charge on customer acceptances | 19 | 104 |
| Net impairment charge on off balance sheet items | 1,070 | 4,717 |
| Net credit loss charge for the period | 394,805 | 325,453 |

Expected credit loss allowance

A summary of the provision for credit loss and the net movement on financial instruments by category are as follows:

| | At 31 December 2019 | Net provided / (released) during the year | Other movement during the year | At 30 September 2020 |
|---|----------------------------|--|---------------------------------------|-----------------------------|
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Due from other banks | 29,080 | 1,324 | | 30,404 |
| Loans and advances | 1,711,565 | 1,335,622 | (876,698) | 2,170,489 |
| Investment securities | 32,432 | 5,576 | - | 38,008 |
| Insurance contract assets and receivables | 38,637 | 4,560 | - | 43,197 |
| Customer acceptances | 421 | (246) | - | 175 |
| Off balance sheet items | 10,717 | (2,166) | - | 8,551 |
| Total | 1,822,852 | 1,344,670 | (876,698) | 2,290,824 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

22. Earnings per share

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

| | Three months period ended 30 September | | Nine months period ended 30 September | |
|---|---|---------------------|--|---------------------|
| | 2020 | 2019 | 2020 | 2019 |
| | (un-audited) | (un-audited) | (un-audited) | (un-audited) |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Profit for the period (AED'000) (attributed to owners of the Bank) | 130,890 | 284,615 | 436,044 | 839,126 |
| Weighted average number of shares in issue (in thousands) | 1,676,245 | 1,676,245 | 1,676,245 | 1,676,245 |
| Basic earnings per share (AED) | 0.08 | 0.17 | 0.26 | 0.50 |

23. Fiduciary activities

The Group holds assets in a fiduciary capacity for its customers without recourse. At 30 September 2020, market value of such assets amounted to AED 2,603 million (31 December 2019: AED 2,178 million) and are excluded from the condensed consolidated financial information of the Group.

24. Cash and cash equivalents

| | 30 September 2020 | 30 September 2019 |
|---|------------------------------|------------------------------|
| | (un-audited) | (un-audited) |
| | AED'000 | AED'000 |
| Cash in hand and current account with UAE Central Bank | 1,513,533 | 817,593 |
| Due from other banks | 7,871,071 | 5,946,566 |
| | 9,384,604 | 6,764,159 |
| Less: Due from other banks with original maturity of three months or more | (5,404,710) | (5,259,203) |
| | 3,979,894 | 1,504,956 |

25. Operating segments

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

The Group has five main business segments:

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

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

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

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

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

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

25. Operating segments (continued)

The segment information provided to the management for the reportable segments for the periods ended 30 September 2020 and 2019 is as follows:

| | Retail Banking AED'000 | Wholesale Banking AED'000 | Business Banking AED'000 | Treasury & other AED'000 | Head office & unallocated costs AED'000 | Insurance business AED'000 | Consolidation elimination AED'000 | Total AED'000 |
|---|------------------------------|---------------------------------|--------------------------------|--------------------------------|--|----------------------------------|---|--------------------|
| 30 September 2020 | | | | | | | | |
| (unaudited) | | | | | | | | |
| Net interest income | 777,775 | 251,250 | 499,874 | 97,545 | | 6,421 | 2,516 | 1,635,381 |
| Net income from Islamic financing net of distribution to depositors | 183,999 | (28,612) | 176,368 | (3,386) | | | | 328,369 |
| Transfer pricing (expense)/income | (212,448) | (45,198) | (36,282) | 223,204 | 70,724 | - | - | - |
| Net interest income and income from Islamic financing | 749,326 | 177,440 | 639,960 | 317,363 | 70,724 | 6,421 | 2,516 | 1,963,750 |
| Non-interest income | 400,363 | 29,458 | 157,641 | 163,110 | 1,449 | 50,480 | (9,805) | 792,696 |
| Operating income | 1,149,689 | 206,898 | 797,601 | 480,473 | 72,173 | 56,901 | (7,289) | 2,756,446 |
| Operating expense excluding depreciation and amortisation | (464,065) | (38,146) | (186,879) | (16,473) | (206,868) | (36,747) | 7,289 | (941,889) |
| Depreciation and amortisation | (30,486) | (1,416) | (2,210) | (619) | (52,352) | (2,661) | | (89,744) |
| Total operating expense | (494,551) | (39,562) | (189,089) | (17,092) | (259,220) | (39,408) | 7,289 | (1,031,633) |
| Provision for credit loss, net | (725,061) | (70,441) | (479,338) | (6,347) | - | (4,984) | | (1,286,171) |
| Net profit / (loss) | (69,923) | 96,895 | 129,174 | 457,034 | (187,047) | 12,509 | | 438,642 |
| Segment assets | 16,459,685 | 13,302,997 | 6,940,547 | 13,799,292 | 1,264,031 | 836,323 | (275,227) | 52,327,648 |
| Total assets | 16,459,685 | 13,302,997 | 6,940,547 | 13,799,292 | 1,264,031 | 836,323 | (275,227) | 52,327,648 |
| Segment liabilities | 12,134,337 | 7,611,409 | 15,070,509 | 8,560,216 | 726,175 | 636,469 | (116,780) | 44,622,335 |
| Total liabilities | 12,134,337 | 7,611,409 | 15,070,509 | 8,560,216 | 726,175 | 636,469 | (116,780) | 44,622,335 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

25. Operating segments (continued)

| | Retail Banking AED'000 | Wholesale Banking AED'000 | Business Banking AED'000 | Treasury & other AED'000 | Head office & unallocated costs AED'000 | Insurance business AED'000 | Consolidation elimination AED'000 | Total AED'000 |
|---|------------------------------|---------------------------------|--------------------------------|--------------------------------|--|----------------------------------|---|--------------------|
| 30 September 2019 | | | | | | | | |
| <i>(unaudited)</i> | | | | | | | | |
| Net interest income | 911,826 | 240,297 | 603,584 | 86,892 | - | 7,549 | 1,807 | 1,851,955 |
| Net income from Islamic financing net of distribution to depositors | 180,308 | (39,618) | 122,959 | (24,447) | - | - | 500 | 239,702 |
| Transfer pricing (expense)/income | (236,291) | (25,024) | 37,596 | 50,831 | 172,888 | - | - | - |
| Net interest income and income from Islamic financing | 855,843 | 175,655 | 764,139 | 113,276 | 172,888 | 7,549 | 2,307 | 2,091,657 |
| Non-interest income | 447,202 | 51,140 | 208,706 | 170,633 | (514) | 37,902 | (8,399) | 906,670 |
| Operating income | 1,303,045 | 226,795 | 972,845 | 283,909 | 172,374 | 45,451 | (6,092) | 2,998,327 |
| Operating expense excluding depreciation and amortisation | (582,167) | (33,360) | (150,476) | (14,503) | (276,696) | (37,327) | 4,603 | (1,089,926) |
| Depreciation and amortisation | (28,209) | (1,112) | (948) | (578) | (50,194) | (2,720) | (1,337) | (85,098) |
| Total operating expense | (610,376) | (34,472) | (151,424) | (15,081) | (326,890) | (40,047) | 3,266 | (1,175,024) |
| Provision for credit loss, net | (532,036) | (114,074) | (324,552) | (10,690) | - | (2,539) | - | (983,891) |
| Net profit | 160,633 | 78,249 | 496,869 | 258,138 | (154,516) | 2,865 | (2,826) | 839,412 |
| 31 December 2019 | | | | | | | | |
| Segment assets | 18,658,865 | 15,222,530 | 7,850,779 | 13,169,569 | 1,610,472 | 823,743 | (216,399) | 57,119,559 |
| Total assets | 18,658,865 | 15,222,530 | 7,850,779 | 13,169,569 | 1,610,472 | 823,743 | (216,399) | 57,119,559 |
| Segment liabilities | 11,794,122 | 12,179,386 | 14,456,801 | 9,455,469 | 815,448 | 634,727 | (57,951) | 49,278,002 |
| Total liabilities | 11,794,122 | 12,179,386 | 14,456,801 | 9,455,469 | 815,448 | 634,727 | (57,951) | 49,278,002 |

The comparative figures of 30 September 2019 and 31 December 2019 have been reclassified between operating segments due to movement of accounts among segments.

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

26. Related parties

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

| | Nine months period ended 30 September | |
|--|---|---|
| | 2020 (un-audited) AED'000 | 2019 (un-audited) AED'000 |
| <i>Transactions during the period</i> | | |
| Interest income | 7,980 | 12,729 |
| Interest expense | 26,355 | 26,538 |
| Commission income | 558 | 979 |
| Directors' and key management personnel's remuneration, sitting and other expenses | 27,102 | 28,436 |
| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
| <i>Balances</i> | | |
| <i>Loans and advances:</i> | | |
| - Shareholders and their related companies | 316,832 | 376,207 |
| - Directors and their related companies | 27,838 | 6,312 |
| - Key management personnel | 6,180 | 6,549 |
| | 350,850 | 389,068 |
| <i>Deposits</i> | | |
| - Shareholders and their related companies | 3,114,516 | 2,218,798 |
| - Directors and their related companies | 10,217 | 10,712 |
| - Key management personnel | 20,869 | 16,882 |
| | 3,145,602 | 2,246,392 |
| <i>Irrevocable commitments and contingent liabilities and forward contracts</i> | | |
| - Shareholders and their related companies | 852,639 | 182,520 |
| - Directors and their related companies | 40 | 40 |
| | 852,679 | 182,560 |

26. Related parties (continued)

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|--------------------------------------|---|---|
| Insurance related receivables | | |
| Due from policy holders | 5,418 | 10,351 |
| Insurance related payables | | |
| Due to policy holders | 496 | 134 |

27. Capital adequacy

Capital structure and capital adequacy as per Basel III requirement as at 30 September 2020

The Bank is required to report capital resources and risk-weighted assets under the Basel III from January 2018. Capital structure and capital adequacy as per Basel III requirement as at 30 September 2020 and 31 December 2019 is given below:

| | 30 September 2020 (un-audited) (after applying prudential filter) AED'000 | 31 December 2019 (audited) AED'000 |
|--|---|---|
| Tier 1 capital | | |
| Ordinary share capital | 1,676,245 | 1,676,245 |
| Legal and other reserves | 4,332,162 | 4,077,839 |
| Retained earnings | 1,520,646 | 919,100 |
| Current year profit | 426,133 | 1,104,419 |
| Dividend | - | (502,874) |
| Tier 1 capital base | 7,955,186 | 7,274,729 |
| Tier 2 capital base | 496,904 | 526,496 |
| Total capital base | 8,452,090 | 7,801,225 |
| Risk weighted assets | | |
| Credit risk | 39,752,292 | 42,119,704 |
| Market risk | 879,641 | 1,178,301 |
| Operational risk | 3,044,186 | 3,044,186 |
| Total risk weighted assets | 43,676,119 | 46,342,191 |
| Capital adequacy ratio on Tier 1 capital | 18.21% | 15.70% |
| Capital adequacy ratio on Tier 2 capital | 1.14% | 1.13% |
| Total Capital adequacy ratio | 19.35% | 16.83% |

As per UAE Central Bank Regulation for Basel III, Minimum Capital requirement including Capital Conservation Buffer is 13.0% for year 2020. New UAE CB regulation dated 22 April 2020 provides for a "Prudential Filter" that permits Banks and Finance Companies to add back increases in IFRS 9 provisions to the regulatory capital over a transition period of 5 years.

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

28. Fair values of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. Underlying the definition of fair value is the presumption that the Group is a going concern without any intention or requirement to materially curtail the scale of its operations or to undertake a transaction on adverse terms. At 30 September 2020, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial assets and liabilities:

| | Fair value | | Carrying value | |
|--|---|---|---|---|
| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
| Assets | | | | |
| Loan and advances | 30,602,989 | 34,906,646 | 30,420,950 | 34,550,563 |
| Investment securities | 7,682,293 | 8,284,077 | 7,589,394 | 8,141,433 |
| Cash and balances with the UAE Central Bank | 3,612,170 | 4,789,244 | 3,612,021 | 4,785,504 |
| Due from other banks | 7,784,986 | 6,530,790 | 7,840,667 | 6,593,233 |
| Total financial assets | 49,682,438 | 54,510,757 | 49,463,032 | 54,070,733 |
| Liabilities | | | | |
| Due to other banks | 4,418,367 | 4,973,965 | 4,405,269 | 4,977,055 |
| Deposits from customer | 34,230,774 | 36,843,560 | 34,204,591 | 36,826,360 |
| Debt securities issued and other borrowing | 3,646,362 | 4,895,514 | 3,610,690 | 4,888,881 |
| Total financial liabilities | 42,295,503 | 46,713,039 | 42,220,550 | 46,692,296 |

29. Fair value hierarchy

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

Quoted market prices - Level 1

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

Valuation techniques using observable inputs - Level 2

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

Valuation techniques using significant unobservable inputs - Level 3

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

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

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

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

29. Fair value hierarchy (continued)

| | Quoted market prices Level 1 AED'000 | Observable inputs Level 2 AED'000 | Significant unobservable inputs Level 3 AED'000 | Total AED'000 |
|---|--|--|--|------------------|
| 30 September 2020 (un-audited) | | | | |
| Asset at fair value | | | | |
| <i>(Through other comprehensive income)</i> | | | | |
| Investment securities - debt | 2,543,855 | | | 2,543,855 |
| Investment securities - equity | 233,839 | | 2,612 | 236,451 |
| Foreign exchange contracts | | 78,073 | | 78,073 |
| Derivative financial instruments | | 542,834 | | 542,834 |
| <i>(Through profit and loss)</i> | | | | |
| Investment market fund | 125,821 | | 41,581 | 167,402 |
| Investment - debt securities <i>(Held at amortised cost)</i> | 35,635 | | | 35,635 |
| Investment securities - debt | 4,362,121 | | 336,829 | 4,698,950 |
| | 7,301,271 | 620,907 | 381,022 | 8,303,200 |
| Liabilities at fair value | | | | |
| Foreign exchange contracts | - | 82,948 | - | 82,948 |
| Derivative financial instruments | - | 655,661 | - | 655,661 |
| | - | 738,609 | - | 738,609 |
| 31 December 2019 | | | | |
| Asset at fair value | | | | |
| <i>(Through other comprehensive income)</i> | | | | |
| Investment securities - debt | 2,453,870 | - | - | 2,453,870 |
| Investment securities - equity | 161,776 | - | 2,612 | 164,388 |
| Foreign exchange contracts | - | 127,052 | - | 127,052 |
| Derivative financial instruments | - | 211,351 | - | 211,351 |
| <i>(through profit and loss)</i> | | | | |
| Investment mutual fund | 295,059 | - | 42,083 | 337,142 |
| Investment securities - debt <i>(Held at amortised cost)</i> | 4,865,024 | - | 463,653 | 5,328,677 |
| | 7,775,729 | 338,403 | 508,348 | 8,622,480 |
| Liabilities at fair value | | | | |
| Foreign exchange contracts | - | 109,746 | - | 109,746 |
| Derivative financial instruments | - | 267,632 | - | 267,632 |
| | - | 377,378 | - | 377,378 |

30. Critical accounting judgements and key sources of estimation of uncertainty

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

31. Right-of-use assets

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|--|---|---|
| Balance at the beginning of the period / year | 176,939 | - |
| Impact of adoption of IFRS 16 1 January 2019 | - | 225,191 |
| Additions during the period / year | 909 | - |
| Decrease due to termination of contract | (28,341) | - |
| Decrease due to changes in lease liability | (2,577) | (10,333) |
| Depreciation for the period / year | (27,368) | (37,919) |
| Balance at the closing of the period / year | 119,562 | 176,939 |

32. Lease liabilities

| | 30 September 2020 (un-audited) AED'000 | 31 December 2019 (audited) AED'000 |
|--|---|---|
| Balance at the beginning of the period / year | 151,710 | - |
| Impact of adoption of IFRS 16 - 1 January 2019 | - | 195,885 |
| Additions during the period / year | 909 | - |
| Decrease due to termination of contract | (28,410) | - |
| Decrease due to change in lease contract amount | (2,577) | (10,511) |
| Interest cost on lease liability for the period / year | 4,176 | 7,520 |
| Gain on rent concessions due to COVID-19 | (3,416) | - |
| Payments made during the period / year | (22,310) | (41,184) |
| Balance at the closing of the period / year | 100,082 | 151,710 |

33. Seasonality of results

Dividend income of AED 14.1 million (30 September 2019 AED 14.3 million) of seasonal nature was recorded in the condensed consolidated financial information for the period.

34. Risk management in the current economic scenario

The economic fallout of COVID-19 crisis is expected to be significant and continues to evolve rapidly. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. The Central Bank of UAE ("CBUAE") also announced multiple measures and incentives totalling to AED 256 billion to help banks support the economic sectors and individuals in the UAE impacted by this crisis.

COVID-19 impact on measurement of ECL

IFRS 9 framework requires the estimation of Expected Credit Loss (ECL) based on current and forecast economic conditions. In order to assess ECL under forecast economic conditions, the Bank utilizes a range of economic scenarios of varying severity, and with appropriate weightings, to ensure that ECL estimates are representative of a range of possible economic outcomes. The Bank has robust governance in place to ensure the appropriateness of the IFRS 9 framework and resultant ECL estimates at all times. Specifically, all aspects of the IFRS 9 framework are overseen by a IFRS 9 Steering Committee with participation from the Chief Risk Officer, Chief Financial Officer and other members from Risk and Finance functions. The Bank, through this committee, reviews the appropriateness of inputs and methodology for IFRS 9 ECL, effectiveness and reliability of the reporting under IFRS 9 & other relevant matters pertaining to IFRS 9 on an ongoing basis.

The Bank has reviewed the potential impact of COVID-19 outbreak on the inputs and assumptions for IFRS 9 ECL measurement in light of available information. Overall, the COVID-19 situation remains fluid and is rapidly evolving at this point, which makes it challenging to reliably reflect impacts in our ECL estimates. Notwithstanding this, recognizing that the outbreak is expected to have an impact on the macro-economic environment beyond reasonable doubt, the Bank has assessed the impact of an increase in probability for the pessimistic scenario in ECL measurement. The probability of pessimistic scenario was increased from 15% to 40% and the probability of the optimistic scenario was reduced to 0% in the first quarter. With the continuation of pessimism around the control of the pandemic and the current business environment, the Bank increased the probability of the pessimistic scenario, from 40% to 70% in the second quarter and further increased the probability of pessimistic scenario from 70% to 80% in the third quarter. If the pessimistic scenario was further changed by +10%/-10%, ECL provision would change by +/-AED 34 million as at 30 September 2020. As a result of change in the scenario weights, the total management overlay of AED 269 million (including AED 3.5 million for its insurance subsidiary) has been taken by the group in the period ended 30 September 2020 giving due consideration to the uncertain external environment.

In recognition of significant economic uncertainty due to the COVID-19 crisis coupled with challenge while applying IFRS 9 principles and requirements under these circumstances, CBUAE, Dubai Financial Services Authority ("DFSA") and the Financial Services Regulatory Authority (the "FSRA") jointly issued a guidance note to Banks and Finance companies ("Joint Guidance") in UAE on 15 April 2020 relating to estimation of IFRS 9 ECL provisions in context of the COVID-19 crisis. The Group has taken into consideration provisions of the Joint Guidance in estimating ECL.

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in risk profile as well as any actual and expected increase in credit risk. This assessment includes detailed review of potential impacts of COVID-19 on individual clients as well as on industry.

34. Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

As per the requirement of the Joint Guidance, the Bank has started grouping of the customers receiving the payment deferrals, into two groups (Group 1 and Group 2) based on the estimated extent of impact of this pandemic on the particular customer; Group 1 classification for the mildly impacted customers and Group 2 classification for the borrowers whose credit profile has deteriorated materially.

The grouping decisions are being taken based on relevant product or portfolio, for example; for Wholesale banking clients, the grouping exercise is being done on a case-by-case assessment of the borrower & the underlying business including the impact of the externalities on the underlying business (cash-flows, turnover, repayment capacity, etc.) of the borrower and based on a combination of certain criteria (like job loss, reduction in salary, level of business operations whether normalcy has reached or not) for other retail and small and medium enterprise portfolios. These grouping decisions are iterative and may change based on the evolving external situations. The Bank has put an internal governance framework around grouping evaluation.

The Bank is continuously monitoring the current situation, which is unprecedented and is working very closely with its customers and extending required support in these uncertain and evolving times and has also reassessed its staging of the portfolio as at 30 September 2020. This included evaluating whether the investment and Financial Institutions' portfolio has suffered a significant deterioration in credit quality.

The Bank continues to work with CBUAE and other regulatory authorities in the jurisdictions it operates to refine and operationalize relief schemes being deployed to assist clients impacted by COVID-19. This includes the Targeted Economic Support Scheme ("TESS") announced in UAE in March 2020 and subsequently updated on 6 April 2020 and 6 August 2020. More than twenty two thousand of the Bank's retail, SME and corporate clients had subscribed to these schemes as at 30 September 2020. The bank staff is in regular contact with customers to explain them about how can the customers claim relief under TESS.

Liquidity management

The extreme liquidity stress brought about by the pandemic during the earlier part of the year is now largely behind us. Gradual oil price recovery, injection of liquidity by Central Banks across the globe, especially the timely actions by the CBUAE helped the banking sector tide the initial concerns. With the sudden liquidity crunch during mid-March, the ALCO chair along with the relevant members had taken multiple steps to execute the requisite actions to address the situation at hand with regular updates to the Board of Directors. In addition to increasing the frequency and the depth of monitoring of new deals and the associated cash flows, the bank amended its internal funds transfer pricing to tighten assets disbursements and to encourage more deposit seeking to boost the liquidity buffers. The Bank effectively stopped all non-committed business which was not relationship driven or did not impact the Bank's franchise, for a short period of time. CBUAE also reduced Reserve Requirement against CASA balances in April 2020, providing an immediate boost to UAE Banks' liquidity. In order to allow Banks to utilize the liquidity thus released, the CBUAE reduced the minimum threshold of liquidity ratios (LCR and ELAR) by 30%. The combination of the above measures by CBUAE along with prudent management of liquidity by the Bank helped ensure that the Bank was able to meet its clients' banking services requirements effectively without disruption, even during a prolonged period of reduced access to the foreign funding markets.

35. Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

CBUAE announced a comprehensive Targeted Economic Support Scheme (TESS) program, allowing UAE Banks to access zero cost funding and pass on the benefit through principal and/or interest deferrals to their clients. The Bank has fully drawn the funds allocated to amounting to AED 1.4 billion and has passed on the benefit to the customers by means of payment deferrals. Payment deferrals were given in line with the Central Bank regulations ensuring that the customers impacted by the pandemic are appropriately supported.

The market liquidity has since improved dramatically both locally and globally leading to a substantial increase of liquidity in the banking system. The bank accordingly repaid high cost sources of funds while maintaining surplus liquidity at the same time. The Bank continues to remain vigilant and is well prepared for any unexpected liquidity scenarios.

Business continuity planning

The Bank's Management Committee (GMC) consisting of heads of all departments continues to closely monitor the situation and take appropriate actions in line with the guidance by NCEMA (National Emergency Crisis and Disasters Management Authority) to ensure safety and security of Bank staff and an uninterrupted service to our customers. Majority of the staff are currently working from home. Teams have been split at various locations. Business Continuity Plans (BCP) for respective areas are in place and tested.

Remote access to workstations is protected using Virtual desktops (VDI) and Virtual private network (VPN) connectivity. The connectivity mandates two factor authentication using tokens. Specific cyber security awareness initiatives were rolled out for both staff and customers. All remote work capabilities enabled for staff are being monitored and all threat intelligence is intercepted and responded to by a 24x7 security operations centre.

The Bank is monitoring local developments that can have an impact on our operations. The Bank continues to promote usage of digital channels resulting in reduced footfall in Branches. All Branches are fully operational and customers are being serviced. Social distancing and queues are being managed as per local authority guidelines. The Bank has taken measures to monitor service levels and the Bank continues to meet the expectations of our clients and support them effectively during these times.

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

34. Risk management in the current economic scenario (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE

Gross loans and advances to customers by product and/or industry

| | Gross loans and advances (un-audited) | | | ECL on loans and advances (un-audited) | |
|--|--|-------------------------|--------------|---|------------------------------|
| | Gross loans | Deferrals under TESS | % | Total ECL | Of which Macro overlay |
| As at 30 September 2020 | AED'000 | AED'000 | | AED'000 | AED'000 |
| <i>Retails banking loans:</i> | | | | | |
| Personal loans | 6,511,197 | 781,750 | 12.0% | 564,474 | 86,890 |
| Mortgage loans | 5,386,156 | 740,416 | 13.7% | 110,552 | 14,276 |
| Credit cards | 2,326,881 | - | - | 360,966 | 49,686 |
| Auto loans | 612,676 | 99,591 | 16.3% | 37,382 | 5,943 |
| Other retail loans | 2,144,769 | - | - | 12,590 | 720 |
| Total retail banking loans | 16,981,679 | 1,621,757 | 9.6% | 1,085,964 | 157,515 |
| <i>Business banking loans:</i> | | | | | |
| RAK business loans | 3,767,583 | 836,833 | 22.2% | 564,866 | 75,696 |
| Other business banking loans | 3,486,928 | 923,170 | 26.5% | 246,447 | 12,612 |
| Total business banking loans | 7,254,511 | 1,760,003 | 24.3% | 811,313 | 88,308 |
| <i>Wholesale banking loans:</i> | | | | | |
| Government Related Entities (GRE's) | 2,657,904 | 380,610 | 14.3% | 12,397 | 2,157 |
| Real Estate and construction | 1,940,456 | 204,784 | 10.6% | 59,900 | 10,311 |
| Other Services | 777,759 | 242,216 | 31.1% | 118,804 | 4,185 |
| Financial Institutions | 693,472 | - | 0.0% | 4,161 | - |
| High net worth borrowers | 1,006,151 | 381,171 | 37.9% | 8,001 | 1,392 |
| Trade | 491,592 | 76,731 | 15.6% | 49,341 | 443 |
| Manufacturing | 391,597 | 58,685 | 15.0% | 14,967 | 886 |
| Govt. Exposures | 358,118 | - | 0.0% | 2,248 | - |
| Other Miscellaneous | 38,200 | 47 | 0.1% | 3,393 | 10 |
| Total wholesale banking loans | 8,355,249 | 1,344,244 | 16.1% | 273,212 | 19,383 |
| Total loans and advances | 32,591,439 | 4,726,004 | 14.5% | 2,170,489 | 265,206 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

34 Risk management in the current economic scenario (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Gross loans and advances to customers by product and/or industry /Group

| | Gross loans AED'000 | Deferrals under TESS | | Group 2 ECL AED'000 |
|--|------------------------|---------------------------|------------------------|---------------------------|
| | | Group 1 ECL AED'000 | Gross loans AED'000 | |
| As at 30 September 2020 | | | | |
| <i>Retails banking loans:</i> | | | | |
| Personal loans | 618,526 | 24,319 | 163,224 | 102,198 |
| Mortgage loans | 649,418 | 3,553 | 90,998 | 10,842 |
| Credit cards | - | - | - | - |
| Auto loans | 81,671 | 1,972 | 17,920 | 7,115 |
| Other retail loans | - | - | - | - |
| Total retail banking loans | 1,349,615 | 29,844 | 272,142 | 120,155 |
| <i>Business banking loans:</i> | | | | |
| RAK business loans | 669,640 | 48,062 | 167,193 | 101,694 |
| Other business banking loans | 728,693 | 3,319 | 194,477 | 20,780 |
| Total business banking loans | 1,398,333 | 51,381 | 361,670 | 122,474 |
| <i>Wholesale banking loans:</i> | | | | |
| Government Related Entities (GRE's) | 380,609 | 749 | - | - |
| Real Estate and construction | 125,572 | 962 | 79,213 | 4,180 |
| Other Services | 242,216 | 15,736 | - | - |
| Financial Institutions | - | - | - | - |
| High net worth borrowers | 337,719 | 1,654 | 43,451 | 3,002 |
| Trade | 49,062 | 124 | 27,669 | 962 |
| Manufacturing | 58,685 | 1,362 | - | - |
| Govt. Exposures | | | | |
| Other Miscellaneous | 48 | - | - | - |
| Total wholesale banking loans | 1,193,911 | 20,587 | 150,333 | 8,144 |
| Total loans and advances | 3,941,859 | 101,812 | 784,145 | 250,773 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

34 Risk management in the current economic scenario (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Change in gross carrying amount and expected credit losses

| | Gross carrying amount | | | ECL on loans and advances (un-audited) | | |
|--------------------------------------|-------------------------------------|---------------------------------|----------------|---|---------------------------------|--------------|
| | 30-Sep-20 Un -audited AED'000 | 31-Dec-19 Audited AED'000 | % Change | 30-Sep-20 Un -audited AED'000 | 31-Dec-19 Audited AED'000 | % Change |
| Retails banking loans: | | | | | | |
| Personal loans | 6,511,197 | 7,222,957 | (9.9)% | 564,474 | 419,479 | 34.6% |
| Mortgage loans | 5,386,156 | 5,380,041 | 0.1% | 110,552 | 82,036 | 34.8% |
| Credit cards | 2,326,881 | 3,121,075 | (25.4)% | 360,966 | 279,702 | 29.1% |
| Auto loans | 612,676 | 868,125 | (29.4)% | 37,382 | 34,003 | 9.9% |
| Other retail loans | 2,144,769 | 2,123,463 | 1.0% | 12,590 | 15,863 | (20.6)% |
| Total retail banking loans | 16,981,679 | 18,715,661 | (9.3)% | 1,085,964 | 831,083 | 30.7% |
| Business banking loans: | | | | | | |
| RAK business loans | 3,767,583 | 4,099,197 | (8.1)% | 564,866 | 507,394 | 11.3% |
| Other business banking loans | 3,486,928 | 4,028,848 | (13.5)% | 246,447 | 154,994 | 59.0% |
| Total business banking loans | 7,254,511 | 8,128,045 | (10.7)% | 811,313 | 662,388 | 22.5% |
| Wholesale banking loans: | | | | | | |
| Government Related Entities (GRE's) | 2,657,905 | 2,401,033 | 10.7% | 12,397 | 3,747 | 230.9% |
| Real Estate & Construction | 1,940,455 | 2,003,607 | (3.2)% | 59,900 | 66,304 | (9.7)% |
| Other Services | 777,759 | 877,281 | (11.3)% | 118,803 | 62,508 | 90.1% |
| Financial Institutions | 693,472 | 2,110,837 | (67.1)% | 4,161 | 10,721 | (61.2)% |
| High net worth borrowers | 1,006,151 | 838,509 | 20.0% | 8,001 | 5,618 | 42.4% |
| Trade | 491,592 | 529,410 | (7.1)% | 49,341 | 47,828 | 3.2% |
| Manufacturing | 391,597 | 402,149 | (2.6)% | 14,967 | 15,847 | (5.6)% |
| Govt. Exposures | 358,118 | 214,264 | 67.1% | 2,248 | 1,338 | 68.0% |
| Other Miscellaneous | 38,200 | 41,332 | (7.6)% | 3,394 | 4,183 | (18.9)% |
| Total wholesale banking loans | 8,355,249 | 9,418,422 | (11.3)% | 273,212 | 218,094 | 25.3% |
| Total loans and advances | 32,591,439 | 36,262,128 | (10.1)% | 2,170,489 | 1,711,565 | 26.8% |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

34 Risk management in the current economic scenario (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Changes in the gross carrying for loans and advances at amortized cost

| | 30 September 2020 (un-audited) | | | |
|---|--------------------------------|---------------------|---------------------|-------------------|
| | Stage 1 12-month | Stage 2 Lifetime | Stage 3 Lifetime | Total |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Gross carrying amount as at 1 January | 32,600,836 | 2,268,213 | 1,393,079 | 36,262,128 |
| Transfer from Stage 1 to Stage 2 | (1,667,650) | 1,667,650 | - | - |
| Transfer from Stage 1 to Stage 3 | (720,539) | - | 720,539 | - |
| Transfer from Stage 2 to Stage 3 | - | (270,816) | 270,816 | - |
| Transfer from Stage 2 to Stage 1 | 294,916 | (294,916) | - | - |
| Transfer from Stage 3 to Stage 2 | - | 61,186 | (61,186) | - |
| Change in Exposures during the year | (6,536,473) | (1,067,979) | 210,972 | (7,393,480) |
| New financial assets originated | 4,599,489 | - | - | 4,599,489 |
| Write-offs | - | - | (876,698) | (876,698) |
| Gross carrying amount as at 30 September | 28,570,579 | 2,363,338 | 1,657,522 | 32,591,439 |

| | 2019 (audited) | | | |
|--|---------------------|---------------------|---------------------|-------------------|
| | Stage 1 12-month | Stage 2 Lifetime | Stage 3 Lifetime | Total |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Gross carrying amount as at 1 January | 30,196,339 | 3,055,710 | 1,575,225 | 34,827,274 |
| Transfer from Stage 1 to Stage 2 | (1,695,493) | 1,695,493 | - | - |
| Transfer from Stage 1 to Stage 3 | (1,101,932) | - | 1,101,932 | - |
| Transfer from Stage 2 to Stage 3 | - | (659,851) | 659,851 | - |
| Transfer from Stage 2 to Stage 1 | 1,152,765 | (1,152,765) | - | - |
| Transfer from Stage 3 to Stage 2 | - | 35,915 | (35,915) | - |
| Change in Exposures during the year | (6,811,420) | (706,289) | (253,945) | (7,771,654) |
| New financial assets originated | 10,860,577 | - | - | 10,860,577 |
| Write-offs | - | - | (1,654,069) | (1,654,069) |
| Gross carrying amount as at 31 December | 32,600,836 | 2,268,213 | 1,393,079 | 36,262,128 |

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

34 Risk management in the current economic scenario (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

The credit risk exposures relating to off-balance sheet items and irrevocable commitments

| | Stage 1 12-month | 2020 (un-audited) Stage 2 Lifetime | Stage 3 Lifetime | Total |
|------------------------------------|---------------------|--|---------------------|-----------|
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Closing balance as at 30 September | 3,411,924 | 115,728 | 131 | 3,527,783 |

| | Stage 1 12-month | 2019 (audited) Stage 2 Lifetime | Stage 3 Lifetime | Total |
|-----------------------------------|---------------------|---------------------------------------|---------------------|-----------|
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Closing balance as at 31 December | 3,091,360 | 254,733 | 50 | 3,346,143 |

Loss allowance for loans and advances measured at amortized cost

| | Stage 1 12-month | Stage 2 Lifetime | Stage 3 Lifetime | Total |
|--|---------------------|---------------------|---------------------|-----------|
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Gross carrying amount as at 1 January | 658,857 | 425,666 | 627,042 | 1,711,565 |
| Transfer from Stage 1 to Stage 2 | (178,923) | 178,923 | - | - |
| Transfer from Stage 1 to Stage 3 | (89,961) | - | 89,961 | - |
| Transfer from Stage 2 to Stage 3 | - | (56,280) | 56,280 | - |
| Transfer from Stage 2 to Stage 1 | 47,993 | (47,993) | - | - |
| Transfer from Stage 3 to Stage 2 | - | 14,698 | (14,698) | - |
| Due to changes in PD's/ LGD's/ EAD | 16,157 | 147,135 | 864,064 | 1,027,356 |
| New financial assets originated | 308,266 | - | - | 308,266 |
| Write-offs | - | - | (876,698) | (876,698) |
| Gross carrying amount as at 30 September | 762,389 | 662,149 | 745,951 | 2,170,489 |

34 Risk management in the current economic scenario (continued)

Quantitative disclosures as required by the Joint Guidance issued by the CBUAE (continued)

Loss allowance for loans and advances measured at amortized cost (continued)

| | 2019 (audited) | | | |
|--|---------------------|---------------------|---------------------|------------------|
| | Stage 1 12-month | Stage 2 Lifetime | Stage 3 Lifetime | Total |
| | AED'000 | AED'000 | AED'000 | AED'000 |
| Gross carrying amount as at 1 January | 588,936 | 513,322 | 864,354 | 1,966,612 |
| Transfer from Stage 1 to Stage 2 | (175,794) | 175,794 | - | - |
| Transfer from Stage 1 to Stage 3 | (173,240) | - | 173,240 | - |
| Transfer from Stage 2 to Stage 3 | - | (219,278) | 219,278 | - |
| Transfer from Stage 2 to Stage 1 | 87,290 | (87,290) | - | - |
| Transfer from Stage 3 to Stage 2 | - | 15,278 | (15,278) | - |
| Due to changes in PD's/ LGD's/ EAD | (236,704) | 27,840 | 1,039,517 | 830,653 |
| New financial assets originated | 568,369 | - | - | 568,369 |
| Write-offs | - | - | (1,654,069) | (1,654,069) |
| Gross carrying amount as at 31 December | 658,857 | 425,666 | 627,042 | 1,711,565 |

As at 30 September 2020, the Group has recorded ECL of AED 30.40 million (31 December 2019: AED 29.08 million) in respect of deposits and balances due from banks. During the nine month period ended 30 September 2020, deposits and balances due from banks amounting to AED 410.5 million were transferred from stage 1 to stage 2, whereas AED 316.6 million were transferred from stage 2 to stage 1.

35. Approval of the condensed consolidated interim financial information

The condensed consolidated interim financial information was approved on **22 October 2020**