

DIRECTORS' REPORT TO THE SHAREHOLDERS

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

Financial performance

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

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

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

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

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

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

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Financial performance (continued)

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

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

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

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

Ratings

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

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

Developments in 2016

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

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Recognition in 2016

- Middle East Internet Banking Product of the Year for Web Authentication Chat at the Asian Banker Middle East Retail Product Awards.
- SME Bank of the Year at the Arabian Business StartUp Awards.
- 'First Launches in the Country' award for the launch of the Kalyan Jewellers co-branded credit card and MasterCard Titanium credit card at the MasterCard Customer Event.
- Most Outstanding Security Team of the Year at the Security Advisor Middle East Awards.
- Best Branding/Marketing Campaign for the launch of RAKelite at the Banker Middle East Awards.
- Security Leader of the Middle East at the Middle East Security Awards (MESA).
- Best Overall Website Service Olympian Award from Ethos Integrated Solutions.
- Best Customer Feedback Implementation Service Olympian Award from Ethos Integrated Solutions.
- Best Positive Sentiment Service Olympian Award from Ethos Integrated Solutions.
- Best New Products & Product Improvement Award for the Home in One mortgage facility at the Gulf Customer and Digital Experience Awards.
- Best Integrated Approach Award for MobileCash card-less withdrawals at the Gulf Customer and Digital Experience Awards.
- Best Internal Use of Digital Award for the Tablet Banking App at the Gulf Customer and Digital Experience Awards.
- Digital Pioneer Award for Web Authentication Chat at the Gulf Customer and Digital Experience Awards.
- Best Overall Customer Experience Award at the Gulf Customer and Digital Experience Awards.

Outlook for 2017

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

For and on behalf of the Board of Directors



H.E. Mohamed Omran Alshamsi
Chairman

1 February 2017