

DIRECTORS' REPORT TO THE SHAREHOLDERS

For and on behalf of the Board of Directors

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 2018. Net Profit for the year amounted to AED 917.5 million, an increase of AED 107.0 million (13.2%) over the previous year. Total Assets stood at AED 52.7 billion, increasing by 8.5% on 2017. Gross Loans and Advances closed at AED 34.8 billion, up by 4.8% over the previous year. The Return on Average Assets ratio closed the year at 1.8% compared to 1.8% for the previous year and Return on Average Equity was 13.5%, compared to 10.6% in 2017.

Financial performance

The increase of AED 107 million in Net Profit was due to an increase of Net Interest Income, a reduction in provisions for expected credit losses offset by an increase in Operating Expenses and a decline in Non-Interest Income.

Gross Interest Income and Income from Islamic Financing increased by AED 333.5 million, which was offset by an increase in Interest Expense and Distributions to Depositors of AED 288.0 million, leading to a net increase to Net Interest Income and Net Income from Islamic Financing of AED 45.5 million. Interest income from conventional loans and investments increased by 9.5%, while interest costs on conventional deposits and borrowings rose by AED 231.5 million. Net income from Sharia-compliant financing increased by AED 11.5 million.

Non-Interest Income declined by AED 28.3 million to AED 1.1 billion. This was mainly due to a decrease of AED 61.2 million in Investment Income compared to 2017. Investment Income was low, due to lower trading gains on Investments. This was partially offset by an increase in net fees and commission income of AED 12.7 million and AED 24.0 million in foreign exchange and derivative income.

Operating Expenses increased by AED 41.9 million, up by 2.9% over the previous year. This was mainly due to an increase of AED 7.0 million in staff and outsourced staff costs, AED 15.7 million in computer expenses and AED 13.8 million in other operating expenses. The Group's Cost to Revenue ratio increased to 38.9% compared to 38.0% for the previous year.

Operating Profit before impairment losses decreased by AED 24.8 million from 2017. This was offset by a decrease in provisions for credit losses by 8.5% from the previous year. Total impairment provision for the year was AED 1.4 billion compared to AED 1.6 billion in 2017.

The Non-Performing Loans and Advances to Gross Loans and Advances ratio rose to 4.2% from 4.0% in the previous year. However, net credit losses to average loans and advances reduced, closing at 4.1% compared to 5.0% in 2017.

Total Assets rose by 8.5% to AED 52.7 billion compared to 2017. This was due to an increase in Gross Loans and Advances of AED 1.6 billion, lending to banks, which grew by AED 956 million and an increase in investments of AED 1.6 billion. Wholesale Banking and Financial Institutions lending grew by 22.2%, up by AED 1.4 billion from the previous year. Retail banking's loan portfolio was down by AED 346 million and Business Banking's loan portfolio was up by AED 494 million compared to 2017.

Customer deposits grew by 6.1% to AED 34.1 billion compared to 2017. This growth came mainly from an increase of AED 2.7 billion in time deposits.

After taking into consideration the profit for 2018 and expected dividend, the Bank's Capital adequacy ratio as per Basel III was 17.2% at year-end, compared with 20.7% at the end of 2017. This level of capital provides the Bank with ample room for growth in 2018. The regulatory Eligible Liquid Asset ratio at the end of the year was 14.5%, compared to 15.0% the previous year. The Advances to Stable Resources ratio stood at a comfortable 94.5% compared to 87.8% at the end of 2017.

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Ratings

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

Rating agency	Last update	Deposits	Outlook
Moody's	January 2019	Baa1/P-2	Stable
Fitch	December 2018	BBB+/F2	Stable
Capital Intelligence	August 2018	A-/A2	Stable

Developments in 2018

- The RAK Department of Finance along with the Electronic Government Authority extended their partnership with RAKBANK as exclusive acquiring bank and STS PayOne, a leading provider of ePayment solutions, to launch RAK SmartPay as an integrated e-payment system in Ras Al Khaimah.
- RAKBANK, Mohammed Bin Rashid Fund (MBRF) reaffirm partnership to facilitate SME financing. The MBRF of Dubai SME, the agency of the Department of Economic Development in Dubai mandated to develop the SME sector, signed a MoU with RAKBANK to facilitate SME access to competitive financing solutions.
- RAKBANK signs an agreement with Sri Lanka's Cargills Bank to offer money remittance through Ripple. The agreement with Sri Lanka's Cargills Bank offers instant, frictionless, and secure money transfer services to Sri Lanka via blockchain using the Ripple platform.
- RAKBANK announced its recent partnership with the Finance Department (Government of Ras Al Khaimah) to facilitate their requirements on cash management and payment gateway solutions.
- RAKBANK partners with INPAY- a European Fintech remittance service provider – to offer faster money remittance services to 25 European countries through RAKMoneyTransfer.
- RAKBANK and FC Barcelona announced a strategic regional partnership for 3 years whereby RAKBANK has become the official bank of FC Barcelona in the United Arab Emirates. This partnership entails the launch of new FC Barcelona dedicated co-branded affinity MasterCard credit card.
- RAKBANK partners with Xpress Money to offer convenient money transfer services to 20 countries through RAKMoneyTransfer.
- RAKBANK partnered with Air Arabia and MasterCard® to launch a co-branded MasterCard Platinum Credit Card, which cardholders can use globally for purchases and cash withdrawals.
- RAKBANK announced its partnership with Federal Electricity & Water Authority to facilitate FEWA bill payment solution through the Bank's Digital Banking platform and other touch points for customers residing in Ras Al Khaimah, Ajman, Umm al Quwain, and Fujairah. Similarly, the Bank signed an agreement with Sharjah Electricity & Water Authority.
- RAKBANK announced a strategic partnership with Etisalat's 'Hello Business Hub', a one-stop location that enables small and medium businesses (SMBs) and start-ups to set up their operations in the UAE.
- RAKBANK hosted the second edition of RAKBANK Ride - one of the most anticipated cycling events in Ras Al Khaimah that attracted more than 500 cyclists.

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

Developments in 2018 (continued)

- RAKBANK launched a contactless cash withdrawal facility that is available on more than 170 NFC enabled ATMs. The Bank has more than 200,000 active cardholders that are able to use their NFC enabled RAKBANK credit or debit card at any of the NFC enabled ATMs to conveniently withdraw cash.
- RAKBANK introduced the RAKGOLD initiative, a division of its Treasury department, which represents the establishment of the Middle East region's first full service end-to-end Bullion Banking unit.
- RAKBANK partnered with C3 and Farnek in order to host a financial literacy campaign at both the Dubai and Ras al Khaimah headquarters. The objective of the financial literacy campaign was to highlight to the Farnek blue collar employees, also C3 prepaid cardholders, about the ability to instantly transfer money to select Asian countries at competitive rates with RAKBANK's RAKMoneyTransfer remittance service.
- RAKBANK raised awareness about the tax system that was implemented back in January 2018 by inviting its Business Banking customers to attend a comprehensive workshop on Value Added Tax (VAT) at the RAKBANK headquarters in Dubai Silicon Oasis.
- The American University of Ras Al Khaimah (AURAK) announced the grand opening of the new RAKBANK Building, which currently houses AURAK's School of Business and the Office of Academic Support Services. The Bank directly supported the setting up of AURAK's School of Business and the Office of Academic Support Services.
- RAKBANK has signed an agreement with Kamakura Corporation to implement Kamakura's solutions for its balance sheet management and funds transfer pricing.
- Sage, the market leader in cloud business management solutions, and RAKBANK announced a partnership agreement, whereby RAKBANK will offer Sage accounting software to support its Business Banking customers of all sizes and across all industries.

Recognition in 2018

- Best Customer Happiness Centre at Customer Happiness Summit and Awards 2018
- Best Marketing, Social Media, and Brand - International Business Excellence Awards
- 'Best SME Bank in the UAE' by the Banker Middle East Industry Awards 2018
- Asian Banker for 'Best Blockchain' under the 'Technology Innovation Awards' category
- Asian Banker for 'Best API Platform Initiative Application or Programme in the Middle East', under the 'Technology Innovation Awards' category
- Best Deposit Product in the Middle East' by the Asian Banker's Middle East & Africa Awards
- 'Best SME Customer Service Award' from Banker Middle East
- Dubai Quality Appreciation Award – 2017 cycle
- Dubai Service Excellence Scheme Award – 2017 cycle
- Best Omnichannel Experience award – Genesys
- RAKBANK has been recognized by the Dubai Police as 'Best Supporting Bank'
- Best Technological Innovation in Payment – B2C by Seamless Awards 2018
- Service Recognition Award by Sharjah Electricity and Water Authority
- Home Loan Provider of the Year by yallacompare at the Banking and Insurance Awards 2018
- Best Customer Loyalty Program for RAKrewards program at Service Olympian Awards 2017
- Best Smart Service Transformation Initiative for Digital Banking App at Service Olympian Awards 2017
- Overall Best Live Chat performance at Service Olympian Awards 2017
- Overall Best Website at Service Olympian Awards 2017
- Best Overall Customer Experience at Gulf Digital Experience Awards
- New Product Improvement for RAKIslamic Fawrun Deposits at Gulf Digital Experience Awards
- Best Social Media and Email Campaign at Gulf Digital Experience Awards
- Most Innovative Outward Remittance Services (RMT) - UAE, by Global Banking & Finance Review Awards 2018.

DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)***Outlook for 2019***

The business climate in 2018 remained uncertain, but for established SMEs it was better than it has been for some time, and we believe this is likely to continue into 2019. An issue for such business in the past has been over-leveraging, but the growing influence of the UAE Credit Bureau has brought new discipline into the segment, which has fed down to the quality of lending RAKBANK has been able to make. In terms of market headwinds, we aren't out of the woods yet, but the local economy is showing signs of a return to healthier levels of growth, and we are in a better position than ever before to exploit it.

Despite a movement towards bank consolidation in the UAE in 2018, we consider ourselves a robust institution with a distinctive niche, a tried and tested business model, and a reputation that we have worked hard to build and strengthen over the past 3 years. We are a different organization to the one that started this journey in 2015. We will now continue our transformation journey, becoming a stronger and more diverse bank in 2019 and beyond.



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H.E. Mohamed Omran Alshamsi
Chairman