

## 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 2017. Net Profit for the year amounted to AED 810.5 million, an increase of AED 147.5 million (22.3%) over the previous year. Total Assets stood at AED 48.5 billion, an increase of 14.2% compared to 31 December 2016. Gross Loans and Advances closed at AED 33.2 billion, up by 11.6% over the previous year. The Return on Average Assets ratio closed at 1.8% and the Return on Average Equity was 10.6%.

### *Financial performance*

The increase of AED 147.5 million in Net Profit was mainly due to a decrease of AED 254.7 million in provision for impairment in loans. Total Operating Income decreased by 0.8% due to the rebalancing of the loan portfolio, while Operating Expenses increased by AED 77.8 million, up by 5.7% over the previous year. Operating Expenses increased, mainly due to legal and collection expenses and staff costs.

Operating Profit before impairment losses decreased by AED 107.2 million over 2016. This was offset by a decrease in provisions for loan impairment by 14.1% from the previous year. Total impairment provision for the year was AED 1,552.9 million compared to AED 1,807.7 million in 2016.

The decline in Total Operating Income by AED 29.5 million to AED 3.8 billion was mainly due to a decrease of AED 101.9 million in Net Interest Income and income from Islamic finance net of distribution to depositors compared to the previous year. This decline was planned as part of our efforts to rebalance our lending portfolio to decrease our focus on higher risk unsecured lending. Net Interest Income and income from Islamic financing fell to AED 2.7 billion. Interest income from conventional loans and investments increased by 0.9%, while interest costs on conventional deposits and borrowings rose by AED 83.2 million. Net income from Sharia-compliant financing was down by AED 43.2 million.

Non-interest income grew by AED 72.4 million to AED 1.1 billion. This was mainly due to increases of AED 62.0 million in income from fees and commissions, AED 5.3 million in other income, AED 19.4 million in gross insurance underwriting profit and AED 24.1 million in foreign exchange and derivative income. This was offset by a decrease of AED 38.4 million in investment income compared to 2016.

Operating costs were up by AED 77.8 million, an increase of 5.7% in 2017. This was mainly due to an increase of AED 42.9 million in staff costs, AED 36.7 million in legal and collection expenses, AED 13.0 million in other expenses and AED 9.2 million in computer expenses. This was partly offset by a decrease in outsourced staff costs at AED 14.8 million and AED 10.7 million in depreciation. The Group's cost to revenue ratio increased to 38.0% compared to 35.6% for the previous year.

The non-performing loans and advances to gross loans and advances ratio dropped to 4.0% from 4.2% in the previous year. Net credit losses to average loans and advances were also reduced, closing at 5.0% compared to 6.2% in 2016. The Group is well provisioned against loan losses, with a conservative loan loss coverage ratio of 74.6% compared to 84.3% 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 492 million. Together with this reserve, the provision coverage ratio would increase to 111%.

## DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

### *Financial performance (continued)*

Total Assets rose by 14.2% to AED 48.5 billion compared to the end of 2016. This was due to an increase in Gross Loans and Advances of AED 3.5 billion, lending to banks - which grew by AED 1.2 billion - and an increase in investments of AED 758 million. Wholesale Banking lending grew by 42.8%, up by AED 1.9 billion from the previous year. Personal Banking's loan portfolio was up by AED 1.1 billion and Business Banking's loan portfolio was up by AED 434.5 million compared to 31 December 2016.

Customer deposits grew by 9.4% to AED 32.2 billion compared to 2016. This growth came mainly from an increase of AED 3.1 billion in time deposits and AED 297.0 million in demand deposits.

After taking into consideration the profit for 2017 and proposed dividend for 2017, the Bank's Tier I ratio as per Basel II was 20.3% at year-end. This compares with 22.3% at the end of 2016. The ratio as per Basel III as at end of 2017 stands at 20.7%. 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 15.0%, compared to 16.9% the previous year. The advances to stable resources ratio stood comfortably at 87.8% compared to 85.5% at the end of 2016.

### **Dividend and appropriation of profits**

The Directors, at the board meeting held on 29 January 2018 have recommended a cash dividend of 30%. The dividend recommendations will result in 38% of net profit being retained within the Bank's shareholders equity thereby increasing capital and reserves to strengthen the Bank's overall position and provide support for future growth.

The Directors propose to increase the regulatory credit risk reserve by AED 71 million to align it at 1.5% of the Bank's total credit risk weighted assets

### **Ratings**

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

Rating agency	Last update	Deposits	Outlook
Moody's	August 2017	Baa1/P-2	Stable
Fitch	November 2017	BBB+/F2	Stable
Capital Intelligence	August 2017	A-/A2	Stable

### **Developments in 2017**

- Launched 3 new branches that are conveniently located in central business hubs - Al Hamra in Ras Al Khaimah, Jabal Ali Free Zone (JAFZA) and Dubai Investment Park (DIP) in Dubai.
- Launched an enhanced Digital Banking platform. The Bank's digital transformation is designed to provide end users with features such as heightened security, maximum convenience, and real-time transaction processing.
- Launched the Samsung Pay mobile payment solutions to the Bank's customers on mobile phones and ATMs, in partnership with Samsung Gulf Electronics.
- Signed an agreement with C3, a Prepaid Card Service Provider, to provide C3 with a BIN sponsorship on their prepaid cards to strengthen the C3 payroll offering.
- Introduced a 'We Care' campaign, which focuses mainly on enhancing the banking experience for people with determination, pregnant women, and mothers with children.
- Extended money remittance services to Pakistan through RAKMoneyTransfer.
- Signed an agreement with Sharjah Electricity & Water Authority (SEWA) to facilitate the SEWA bill payment solution through the Bank's Digital Banking platform, for RAKBANK customers that live and have businesses in Sharjah.

## DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

### *Developments in 2017 (continued)*

- RAKBANK was the first bank in the Middle East to partner with a FinTech platform, Invoice Bazaar, to offer Supply Chain Finance solutions to SME clientele. The partnership allows RAKBANK to participate as a 'Receivable Purchaser' on Supply Chain Finance transactions originated by Invoice Bazaar.
- Launched a USD 250 million 3-year Syndicated Term Loan Facility. The syndication was launched on 8 August 2017 and the facility was well received by the market and oversubscribed on the back of strong participation from regional and international banks. RAKBANK decided to upsize the facility size to USD 350 million.
- Hosted the 'Happiness Without Borders' workshop at RAKBANK headquarters in Dubai Silicon Oasis, which brought together Chief Happiness and Positivity Ministers from various government entities.
- Launch of Apple Pay to the Bank's customers.
- Entered the merchant acquisition business with 'RAKBANK Pay' by offering merchants across the country the ability to accept electronic payments safely and securely, using the latest technology across all channels.
- Partnered with Ripple to power instant remittance payments to India using Blockchain. RAKBANK is the first financial institution to offer blockchain remittance through Ripple.
- The Dubai Gold and Commodities Exchange (DGCX), the Dubai Multi Commodities Centre (DMCC) and RAKBANK signed a Memorandum of Understanding (MoU) for the development of bullion products.
- Dubai SME and RAKBANK signed a MoU to facilitate SME financing.
- Ras Al Khaimah Economic Zone (RAKEZ) and RAKBANK signed a Memorandum of Understanding (MoU) to offer the economic zone's 13,000+ clients easy access to a wide range of banking services on preferential terms.
- Partnered with the Mohammed Bin Rashid Innovation Fund, MBRIF, to support local talent by providing a stepping stone for start-ups in the UAE that have an innovative and sustainable business model.

### *Recognition in 2017*

- RAKBANK won the following awards at the H1 Yalacompere Banking Awards, for the January to June 2017 period:
  - Home Loan Provider of the Year for Home in One.
  - SME Finance Provider of the Year.
- The Asian Banking and Finance Awards 2017 awarded RAKBANK with two titles for Home in One in the following categories:
  - Advertising Campaign of the Year in the UAE.
  - New Consumer Lending Product of the Year in the UAE.
- RAKBANK won Best SME Bank at the Banker Middle East (BME) Industry Awards 2017.
- RAKBANK won Best Strategy, Change and Transformation - Digital Banking at the International Business Excellence Awards 2017.
- RAKBANK won Best E-Commerce and Digital Experience - Digital Banking at the International Business Excellence Awards 2017.
- The Bank received the Government Accelerator Recognition Award for achievements in Emiratization.
- RAK Money Transfer won Remittance Product of the Year at the Middle East Asian Bankers Award.

## DIRECTORS' REPORT TO THE SHAREHOLDERS (continued)

### *Recognition in 2017 ( continued)*

- RAKBANK received the 11th Middle East Happiness and Positivity Excellence Award for the Banking and Financial category, from the Middle East Excellence Award Institute.
- MasterCard presented RAKBANK with Best SME Program.

### *Outlook for 2018*

Looking to 2018 and beyond, we will build on the successes of the year to maintain growth across our principal business units, while at the same time adapting and expanding our product range to exceed the expectations of our customers. Despite challenges in recent years, RAKBANK remains firmly committed to the SME community. We also see our re-entry into the wholesale market, and our refreshed approach to our Personal Banking offering as crucial to ensuring that we provide superior products and services to all clients in the UAE. We believe that the customers' journey is the Banks' journey, and so the more holistic our offering the closer our relationship becomes. The Bank's aim is to continue to diversify the loan book in core areas, while at the same time diversifying income from non-interest products and services, and expanding our footprint in the Wholesale and Treasury space. RAKBANK will continue to find ways to optimise its operating costs, improving efficiency across the Group, and to engage in strategic partnerships with selected parties that will give us a competitive edge in the market.

**For and on behalf of the Board of Directors**



**H.E. Mohamed Omran Alshamsi**  
Chairman

**29 January 2018**