

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

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 2015. Net profit for the year amounted to AED 1,405.3 million, a marginal decrease of AED 49.3 million over the previous year, continuing the Group’s leadership position in the UAE in terms of Return on Average Assets of 3.7% and Return on Average Equity of 19.3%. Total assets stood at AED 40.6 billion, increasing by 16.4% compared to 31 December 2014. Gross loans and advances closed at AED 28.5 billion, up by 10.6% over the previous year.

Financial Performance

The decrease of AED 49.3 million in the 2015 net profit over that of 2014 was mainly due to an increase of AED 460.1 million in provision for impairment in loans and a decrease of AED 12.6 million in investment income. The total operating income increased by 10.8% whilst the operating expenses decreased by AED 26.7 million, down by 1.8% over the previous year. The operating expenses were lower mainly due to a decline in outsourced staff costs, marketing expenses and depreciation costs. Operating profit before impairment losses grew by AED 410.8 million, up by 20% over 2014. This was offset by an increase of AED 460.1 million in provisions for loan impairment, up by 77.3% from the previous year, as a result of larger payment defaults in the unsecured loan products, SME and Commercial Banking segments.

The growth in Total Operating Income by AED 384.1 million to AED 3.9 billion was mainly due to an increase of AED 291.1 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 increased to AED 3.0 billion. Interest income from conventional loans and investments increased by 4.2% over the last year, while interest costs on conventional deposits and borrowings increased by 8.1%. Net income from Sharia-compliant financing was up by AED 191.4 million which was in line with the increase in Islamic Financing portfolio.

Non-interest income grew by AED 93 million to AED 890.9 million, on the back of AED 37.5 million in income from the insurance segment since acquisition of Ras Al Khaimah National Insurance Company PSC (RAK Insurance) in May 2015. There was an increase of AED 30.7 million in other operating income, AED 29.3 million in net fees and commission income compared to 2014. Foreign exchange and derivative income was up by AED 8.1 million and investment income decreased by AED 12.6 million over the previous year. The decrease in investment income was due to an impairment charge for the decline in value of the equity investments portfolio compared to a gain in the previous year.

Operating costs were down by AED 26.7 million, a decrease of 1.8% over 2014. This was mainly due to a decrease of AED 10.5 million in outsourced staff costs and AED 2.8 million in marketing costs. There was a drop of AED 6.8 million in depreciation costs. Combined with an increase in Total Operating Income, the Group’s cost to revenue ratio came down to 37.5% compared to 42.3% for the previous year.

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Non-performing loans and advances to gross loans and advances ratio closed at 3.2% compared to 2.4% and net credit losses to average loans and advances closed at 3.8% compared to 2.5% in the previous year. The Group is well provisioned against loan losses with a conservative loan loss coverage ratio of 81.4% compared to 87.1% at the end of 2014 and 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, which amounts to AED 377 million. Together with this reserve, the provision coverage ratio would increase to 122.7%.

Total assets increased by 16.4% to AED 40.6 billion compared to the end of 2014 with the major contributions coming from gross loans and advances and lending to banks which grew by AED 2.7 billion and AED 1.6 billion respectively. The Wholesale Banking segment lending, grew by 138.1% up by AED 1.4 billion over the previous year. Retail banking segment loan portfolio which includes small and medium business loans grew by AED 1.3 billion compared 31 December 2014. Our 'Amal' Islamic Banking unit continues to grow, achieving an increase of AED 1.1 billion in its financing portfolio, up by 33.2% over the last year.

Customer deposits grew by AED 12.9% to AED 27.8 billion compared to 2014. The growth came mainly from an increase of AED 2.5 billion in demand deposits and AED 653.2 million in time deposits. Islamic customer deposits grew by AED 899.2 million to AED 3.5 billion compared to the previous year.

During the first half of 2015, the Group successfully issued the second tranche of USD 300 million notes under its USD 1 billion medium term note program at a premium rate of 100.875% through its subsidiary RAKFunding Cayman Ltd, to take advantage of the low-cost financing opportunities in the bond market and to proactively tackle the duration mismatch from funding longer tenure loans using short-term deposits. So far the Group has issued USD 800 million of these notes against the original programme of USD 1 billion. These notes mature in 2019 and carry a fixed interest rate of 3.25% per annum. Interest on these medium term notes is payable half-yearly in arrears.

In the Ordinary General Assembly on 18 August 2014, the shareholders of the Bank had approved the acquisition of a majority stake in RAK Insurance at a cash price of AED 3.64 per share. The Bank received approval on 6 January 2015 from the Central Bank of UAE to proceed with the share purchase offer to the shareholders of RAK Insurance. In May 2015 the Bank made a public offer to shareholders of the insurance company to purchase their shareholding at a cash price of AED 3.64 per share. 79.23% of RAK Insurance shareholders accepted this offer and on 28 May 2015 the Bank acquired 79.23% stake in the company which has been accounted for as a subsidiary since then.

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The Bank's Tier 1 ratio as per Basel II after taking into consideration the profit for 2015 and the proposed dividend was 24.4% at yearend (subject to shareholders and UAE Central Bank approval), compared to 26.5% at the end of 2014, against a requirement of 12% set by the UAE Central Bank. We find that this level of capital provides the Bank with ample room for growth in 2016. The regulatory eligible liquid asset ratio at the end of the year was 19.1%, compared to 20.0% at the end of 2014, and advances to stable resources ratio stood comfortably at 83.3% compared to 87.9% at the end of 2014.

Ratings

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

Rating Agency	Last Update	Deposits	Outlook
Moody's	September 2015	Baa1 / P-2	Stable
Fitch	August 2015	BBB+ / F2	Stable
Capital Intelligence	August 2015	A- / A2	Stable

Dividend and appropriation of profits

The Directors, at the board meeting held on 2 February 2016 have recommended a cash dividend of 50%. The Directors consider that the Bank is well placed to meet the continuing challenges which will be faced during 2016. The dividend recommendations will result in 40% 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 general banking risk reserve by AED 100 million, credit risk reserve by AED 100 million and regulatory credit risk reserve by AED 43 million to align it at 1.5% of the Bank's total credit risk weighted assets. These measures will increase the Bank's shareholders' equity to AED 6.8 billion after payment of the proposed cash dividend. A detailed appropriation schedule is provided in note 14 to the financial statements.

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Directors' Report to the Shareholders (continued)

Developments in 2015:

- Raising an additional USD 300 million bond through its EMTN
- Appointing a new Chairman, H.E. Mohammad Omran Alshamsi
- Acquiring 79.23% stake in RAK Insurance
- Selectively re-entering the Wholesale Banking segment to diversify the Bank's risk profile
- Launching RAKelite premium banking
- Achieving the ISO 9001:2015 version certificate for the Bank's Branches and Inbound Contact Centre, certified by QCS Management Pvt Ltd of ISO 9001:2015 Quality Management System
- Introducing RAKMoneyTransfer's new remittance business with corridors to India
- Launching three new MasterCard Credit Cards including RAKBANK World, Red 'Tap & Go', and Kalyan Jewellers
- Introducing a new logo and refreshed corporate branding

Recognition in 2015:

- Best SME Bank in the Middle East for RAKFinance at The Asian Banker Middle East Retail Product Awards
- Best Mobile Banking Initiative for MobileCash at The Asian Banker Middle East Retail Product Awards
- Best Service Innovation for Customer Web-Chat by Ethos UAE Service Olympian Awards
- Best Mobile App by Ethos UAE Service Olympian Awards
- Best Segment Solution for World MasterCard Credit Card by MasterCard Innovation Forum
- EMEA Customer Innovation Award by Genesys G-Force Awards

Outlook for 2016

Looking to the future, we remain committed to generating solid and sustainable growth across our Retail, Wholesale, Treasury and Insurance 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 by 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 any future challenges.


H.E. Mohamed Omran Alshamsi

Chairman

For and on behalf of Board of Directors

2nd February 2016