

National Bank of Ras Al Khaimah PSC Consolidated Results for the Half Year ended June 30, 2020

Ras Al Khaimah, 05 August 2020 - The National Bank of Ras Al Khaimah (ADX: RAKBANK) today announced its results for the half year ended 30 June 2020. The following Management Discussion and Analysis includes financial results from RAKBANK and its subsidiaries, together referred to as the “Group”.

Q2 2020 Highlights

Net Profit of AED 153.1 million

Net profit down by 46.2% compared to Q2 2019; down by 0.2% compared to the previous quarter

Total Income of AED 902.8 million

Total income down by 9.1% compared to the Q2 2019; down by 9.8% compared to the previous quarter

Total Assets at AED 54.3 billion

Total assets down by 5.1% year on year; down by 4.9% year to date

Gross Loans & Advances at AED 34.6 billion

Gross loans and advances down by 2.2% year on year; down by 4.7% year to date

Total Deposits at AED 35.1 billion

Total deposits down by 9.8% year on year; down by 4.8% year to date

Capital Adequacy Ratio 18.3%

*Capital adequacy ratio as at 30 June 2020 was 18.3% compared to 16.8% as at the previous year-end
Common Equity Tier 1 (CET1) ratio was 17.2% compared to 15.7% as at the previous year-end*

H1 2020 Highlights

Net Profit of AED 306.6 million

Net profit down by 44.7% compared to H1 2019

Total Income of AED 1.9 billion

Total income down by 4.5% compared to H1 2019

Return on Assets* at 1.1% and Return on Average Equity* at 7.9%

*Annualised

Review

Commenting on the results, Peter England, Chief Executive Officer, said: “While the increased IFRS 9 provisions at RAKBANK have weighed down on our net profit, our overall performance for the 1st half was solid. In fact, if we exclude the IFRS overlay set aside for potential future bad debts our operating profit including ordinary provisions was very similar to the 1st half of 2019. Spending habits of consumers and businesses overall have been subdued which is reflected in the Bank’s Gross Loans and Advances, which contracted by 2.2% year-on-year. That said, RAKBANK witnessed an increase in CASA deposits by AED 1.0 billion compared to 31 December 2019 which is indication of changing behaviour of clients, as well as the Bank’s operational resilience during this crisis.

We entered this crisis from a position of strength through the early adoption of several actions aimed at ensuring the safety and security of all our stakeholders, as well as supporting their financial well-being. I’d like to highlight that our credit quality at RAKBANK has been stable throughout the first half of 2020 and the current increase in the impairment provisions is largely a precautionary measure taken to protect the Bank from the potential deterioration in credit quality for the impending quarters. As a proactive step, the Bank reserved additional ECL provision amounting to AED 232 million. RAKBANK is constantly taking the necessary steps to optimise operating costs as much as possible without impacting our operations or business, with the ultimate aim of increasing efficiency and utilizing appropriate technologies.”

RAKBANK FINANCIAL SNAPSHOT FOR H1 2020 RESULTS

Income Statement Highlights								
(AED Mn)	Quarter Results					Half Year Results		
	Q2'20	Q2'19	Q1'20	Q2'20 vs Q2'19	Q2'20 vs Q1'20	H1'20	H1'19	H1'20 vs H1'19
	Net Interest Income and net income from Islamic financing	666.5	695.7	696.1	(4.2%)	(4.2%)	1,362.7	1,379.5
Non-Interest Income	236.2	297.0	305.0	(20.5%)	(22.6%)	541.3	614.2	(11.9%)
Total Income	902.8	992.7	1,001.2	(9.1%)	(9.8%)	1,903.9	1,993.7	(4.5%)
Operating Expenditures	(338.7)	(395.8)	(367.3)	14.4%	7.8%	(705.9)	(780.4)	9.5%
Operating Profit Before Provisions for Impairment	564.1	596.9	633.9	(5.5%)	(11.0%)	1,198.0	1,213.4	(1.3%)
Provisions for Impairment	(411.0)	(312.1)	(480.4)	(31.7%)	14.5%	(891.4)	(658.4)	(35.4%)
Net Profit	153.1	284.8	153.5	(46.2%)	(0.2%)	306.6	554.9	(44.7%)

Balance Sheet Highlights					
(AED Bn)	Results as at			Variance	
	Jun'20	Dec'19	Jun'19	Jun'20 vs Dec'19	Jun'20 vs Jun'19
Total Assets	54.3	57.2	57.3	(4.9%)	(5.1%)
Gross Loans & Advances	34.6	36.3	35.3	(4.7%)	(2.2%)
Deposits	35.1	36.8	38.9	(4.8%)	(9.8%)

Key Ratios Highlights					
Percentage	Results as at			Variance	
	Jun'20	Dec'19	Jun'19	Jun'20 vs Dec'19	Jun'20 vs Jun'19
Return on Equity	7.9%*	14.9%	15.6%*	(7.0%)	(7.7%)
Return on Assets	1.1%*	2.0%	2.1%*	(0.9%)	(1.0%)
Net Interest Margin	4.8%*	5.1%	5.2%*	(0.3%)	(0.4%)
Cost to Income	37.1%	39.5%	39.1%	2.4%	2.0%
Impaired Loan Ratio	4.5%	4.0%	3.7%	(0.5%)	(0.8%)
Impaired Loan Coverage Ratio	128.2%	118.4%	131.8%	9.8%	(3.6%)
Total Capital Adequacy Ratio Basel III	18.3%**	16.8%	17.3%	1.5%	1.0%

* Annualized

**After application of Prudential Filter

Q2 2020 Results Review
Total Income

Compared to Q2 2019, the total operating Income was down by AED 89.9 million to AED 902.8 million. The Total Operating Income was down by AED 98.4 million compared to Q1 2020. Net Interest Income and Income from Islamic products net of distribution to depositors was AED 666.5 million. Interest income from conventional loans and investments was down by 15.3% compared to Q2 2019 and interest costs on conventional deposits and borrowings decreased by 71.7 million. Net income from Sharia-compliant Islamic financing was up by 24.0%. Non-interest income was down by AED 60.8 million to AED 236.2 million mainly as Fees and Commissions income decreased by AED 54.8 million and FOREX and Derivative income was also down by AED 16.9 million.

Operating Expenses and Cost-to-Income Ratio

Operating Expenses for the quarter were lower by AED 57.2 million compared to Q2 2019. This was mainly due to a decrease of AED 41.4 million in staff costs, AED 6.1 million in occupancy costs, AED 3.1 million in marketing expenses and AED 3.1 million in communication costs. The Bank's Cost-to-Income ratio decreased to 37.1% compared to 39.1% at the end of same quarter last year.

Asset Quality and Impairments

Provision for credit loss for the quarter increased by AED 98.9 million compared to Q2 2019 largely due to higher IFRS 9 provisions due to a deterioration in future economic outlook under the current COVID-19 conditions. Non-performing Loans and Advances to Gross Loans and Advances ratio closed at 4.5% compared to 3.7% as at 30 June 2019 and 4.0% as at 31 December 2019. The Bank is well provisioned against loan losses with a loan loss coverage ratio of 128.2%, which does not take into consideration-mortgaged properties and other realizable asset collateral available against the loans.

Assets

Total Assets decreased by AED 2.8 billion to AED 54.3 billion compared to 31 December 2019 with major reduction in customer Loans and Advances, down by AED 1.7 billion and the Central Bank of the UAE balances were also down by AED 1.1 billion. Customer lending had declined in all three segments. Lending in the Retail Banking segment is down by AED 1.3 billion over the previous year-end to AED 17.5 billion. Business Banking and Wholesale Banking segment's lending were also down by AED 370.3 million and AED 51.9 million respectively compared to 31 December 2019.

Customer Deposits

Customer deposits decreased by AED 1.8 billion to AED 35.1 billion compared to 31 December 2019. The reduction in deposits, was mainly due to a decrease of AED 2.8 billion in time deposits, which was partially offset by an increase of AED 1.0 billion in CASA deposits.

Capital and Liquidity

The Bank's total Capital Ratio as per Basel III, after the application of the prudential filter was 18.3% compared to 16.8% at the end of the previous year. The regulatory eligible liquid asset ratio at the end of the quarter was 9.8%, compared to 12.9% as at 31 December 2019, and advances to stable resources ratio stood comfortably at 89.6% compared to 89.1% at the end of 2019.

Cash Flows

Cash and cash equivalent as at 30 June 2020 were AED 2.6 billion compared to AED 1.9 billion as at 31 December 2019. Net cash generated from operating and investing activities were AED 977.7 million and AED 205.9 million respectively and AED 514.8 million cash was used in financing activities.

H1 2020 Results Review

Net Interest Income and Income from Islamic products net of distribution to depositors for the six months ended 30 June 2020 was down by 16.9 million compared to same period in the previous year. Non-interest income was down by AED 72.9 million to AED 541.3 million, mainly due to the decrease of AED 65.2 million in Fees and Commissions and AED 22.9 million FOREX & Derivative income compared to H1 2019.

Operating Expenses were down by 9.5% to AED 705.9 million. Bank's Cost-to-Income ratio decreased to 37.1% compared to 39.1% for the same period previous year.

Net Credit Losses to average loans and advances for the half year ended 30 June, 2020 closed at 5.0% compared to 3.8% for the same period last year and 3.7% for year 2019 due to higher provisions under IFRS 9.

Impact of Projected Capital Expenditure and Developments

The Group incurred AED 41.0 million in capital expenditure during the period compared to AED 38.4 million in first half of 2019. In view of the current economic scenario, the Group will be more prudent in spending on capital items and operating expense is expected to be lower compared to the previous year. The Bank will spend more on IT digitization and enhancing of its e-banking offerings for its customers.

In view of the expected economic impact of COVID-19, the Group is taking necessary steps to reduce operating costs by as much as possible without impact the long-term franchise value of RAKBANK.

H1 2020 Major Events and Developments

- RAKBANK implemented the UAE Pass registration, a National Digital Identity and Digital Signature solution for the UAE, across all branches. The UAE Pass solution enables the Bank's customers and potential customers to complete their registration seamlessly and securely in just a few simple clicks of a device with the help of the Bank's staff at any of the branches.
- RAKBANK has entered into a multi-year agreement with Emirates Skywards, the award-winning loyalty programme of Emirates airline, to announce the launch of the RAKBANK Emirates Skywards World Elite Mastercard, available in both conventional and sharia' compliant Islamic variants.
- RAKBANK announced further plans to provide financial relief to individuals, SMEs, and corporates impacted by the economic consequences of the coronavirus.
- RAKBANK partnered with BDO Unibank, a full-service universal bank in the Philippines, to enhance the Bank's RAKMoneyTransfer (RMT) footprint in the Philippines. The RMT services will now enable customers to make instant, frictionless, and secure money transfer services to any bank account in the Philippines.
- RAKBANK expanded its RAKMoneyTransfer (RMT) services into the Bangladeshi corridor by partnering with Bank Asia, a third generation Private commercial bank. The Bank's RMT service now facilitates transfers to Bank Asia accounts within minutes and to any other bank account in Bangladesh within 24 hours.
- RAKIslamic played an active role in containing the spread of the novel coronavirus in the country by partnering with Thumbay University Hospital to sponsor COVID-19 swab tests and medical screenings for blue collar workers based in Dubai and Ras Al Khaimah.

Risk Management in the Current Economic Scenario

The economic fallout of COVID-19 crisis is expected to be significant and is rapidly evolving. The Group has invoked several management actions aimed at ensuring the safety and security of all our stakeholders as well as supporting their financial well-being. We are taking prudent measures to mitigate the impacts of the crisis with full support of the Central Bank of the UAE. Whilst credit quality was stable in H1 2020, the Group increased impairment allowances for Stage 1 and 2 coverage in recognition of a potential deterioration in credit quality in subsequent quarters related to the coronavirus (COVID-19) pandemic.

Under CBUAE TESS (Targeted Economic Support Scheme) program Bank has received zero cost funding of AED 1.42 billion which was passed on to its customers through Principal or/and Interest deferrals .

Ratings

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

Rating Agency	Last Update	Deposits	Outlook
Moody's	June 2020	Baa1 / P-2	Negative
Fitch	May 2020	BBB+ / F2	Stable
Capital Intelligence	August 2019	A-/A2	Stable



Peter William England
 Chief Executive Officer


About RAKBANK

RAKBANK, also known as The National Bank of Ras Al Khaimah (P.S.C), is one of the UAE's most dynamic financial institutions. Founded in 1976, it underwent a major transformation in 2001 as it rebranded into RAKBANK and shifted its focus from purely corporate to retail and business banking. In addition to offering a wide range of Personal Banking services, the Bank increased its lending in the traditional SME, Commercial, and Corporate segment in recent years. The Bank also offers Islamic Banking solutions, via RAKIslamic, throughout its 36 branches and its Telephone and Digital Banking channels. RAKBANK is a public joint stock company headquartered in the emirate of Ras Al Khaimah and listed on the Abu Dhabi Securities Exchange (ADX). For more information, please visit www.rakbank.ae or contact the Call Centre on +9714 213 0000. Alternatively, you can connect with RAKBANK via twitter.com/rakbanklive and facebook.com/rakbank.

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