

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 2020. Net Profit for the year amounted to AED 505.4 million, a decrease of AED 589.9 million (53.9%) over the previous year. Total Assets stood at AED 52.8 billion, decreasing by 7.6% over 2019. Gross Loans and Advances closed at AED 32.2 billion, down by 11.2% over the previous year. Deposits grew by 0.3% with CASA growth of AED 5.1 billion (22.3%). The Return on Average Assets ratio closed the year at 0.9% compared to 2.0% for the previous year and Return on Average Equity was 6.5%, compared to 14.9% in 2019.

Financial performance

The decrease of AED 589.9 million in Net Profit was due to the decrease in Net Interest Income and non-interest income, an increase in provisions for expected credit losses offset by a decrease in Operating Expenses.

Gross Interest Income and Income from Islamic Financing decreased by AED 600.9 million, which was offset by a decrease in Interest Expense and Distributions to Depositors of AED 324.4 million that resulted in a total decrease in Net Interest Income and Net Income from Islamic Financing of AED 276.5 million. Interest income from conventional loans and investments decreased by 20.5%, while interest costs on conventional deposits and borrowings went down by AED 271.8 million. Net income from Sharia-compliant financing increased by AED 97.0 million. Gross Interest Income and Income from Islamic Financing decreased due to a decline in high yielding loan and investment books because of the lock down, lower credit demand and reduced credit appetite of the Bank for higher risk customer and industry segments. This was aided by a general decline in interest rates in the economy. Interest Expense and Distributions to Depositors were lower due to the lack of demand for funds due to the declining loan book, higher contribution of CASA deposits and the lower interest rate environment.

Non-Interest Income decreased by AED 138.4 million to AED 1.0 billion. This was mainly due to a decrease of AED 139.9 million in Net fees and commission income and AED 51.8 million in forex and derivative income compared to 2019 that was partially offset by an increase in investment Income AED 40.0 million as well as an increase in Gross insurance underwriting profit by AED 22.0 million. Net fees and commission was lower due to lower business volumes.

Operating Expenses decreased by AED 175.1 million, down by 11.1% compared to the previous year. This was mainly due to a decrease of AED 110.0 million in staff costs, AED 18.5 million in occupancy costs, AED 16.4 million in marketing expenses and AED 30.2 million in other costs as a result of various cost optimisation measures taken by the Group. The Group's Cost to Revenue ratio decreased to 39.2% compared to 39.5% for the previous year.

Operating Profit before impairment losses decreased by AED 239.8 million from 2019 and provisions for credit losses increased by AED 350.1 million (26.7%) from the previous year. Total impairment provision for the year stood at AED 1.7 billion compared to AED 1.3 billion in 2019. The increase in provisions for credit losses was largely a result of an increase in pre-emptive provisions due to adverse macroeconomic conditions and also on the grouping of loans which are under deferral.

The Non-Performing Loans and Advances to Gross Loans and Advances ratio increased to 5.2% from 4.0% in the previous year. Additionally, the net credit losses to average loans and advances increased to 4.8% in 2020 compared to 3.7% in 2019.

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Financial performance (continued)

Total Assets declined by 7.6% to AED 52.8 billion compared to 2019. This was due to a decrease in Gross Loans and Advances of AED 4.1 billion, Customer Acceptances decreased by AED 307.4 million and Insurance contract assets and receivables decreased by AED 158.2 million. This was partially offset by an increase in cash and balances with Central Bank by AED 684.8 million. Wholesale Banking and Financial Institutions lending declined by 8.0%, down by AED 748.9 million from the previous year. Retail banking's loan portfolio was down by AED 2.0 billion and Business Banking's loan portfolio was down by AED 1.3 billion compared to 2019.

Customer deposits grew by AED 118 million to AED 36.9 billion compared to 2019. This growth came mainly from an increase of AED 5.1 billion in CASA offset by decrease AED 5.0 billion in Time Deposits.

After taking into consideration the profit for 2020 and expected dividend, the Bank's Capital adequacy ratio as per Basel III was 18.6% at year-end, compared with 16.8% at the end of 2019. This level of capital provides the Bank with ample room for growth in 2021. The regulatory Eligible Liquid Asset Ratio at the end of the year was 14.5%, compared to 12.9% the previous year. The Advances to Stable Resources ratio stood at a comfortable 80.6% compared to 89.1% at the end of 2019.

Ratings

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

Rating Agency	Last update date	Deposits	Outlook
Moody's	December 2020	Baa1 / P-2	Negative
Fitch	July 2020	BBB+ / F2	Stable
Capital Intelligence	August 2020	A- / A2	Stable

Regulatory disclosure

During the year, the Group has not engaged its external auditor PricewaterhouseCoopers for any non-audit services.

Developments in 2020

- 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.
- MetLife signed a 10-year strategic preferred partnership with RAKBANK to provide comprehensive life insurance solutions. The partnership offers a versatile and highly competitive life insurance solution for the Bank's customers. It has the highest non-medical underwriting limit of USD 1.25 million, exceptional maturity value and an intuitive digital-first sales and service platform, Mpower.
- 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 to any bank account in the Philippines.

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Developments in 2020 (continued)

- 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.
- RAK islamic 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.
- RAKBANK announced further plans to provide financial relief to individuals, SMEs, and corporates impacted by the economic consequences of the novel coronavirus that is in line with the Central Bank's Targeted Economic Support Scheme (TESS).
- Dubai Economy, along with Emirates NBD, HSBC, RAKBANK, ADCB and CBD formed a consortium for sharing of verified KYC (Know Your Customer) data between banks and licensing authorities in the UAE through the 'KYC Blockchain Consortium'.
- SwatchPAY! – a contactless payment solution launched in exclusive partnership with RAKBANK in the UAE.
- RAKBANK partnered with the Ministry of Finance to become one of the partnering banks of the new eDirham payment gateway.
- RAKBANK hosted the second edition of the much anticipated SME Conclave. The event was hosted virtually given the current pandemic. The Bank recognizes the importance of creating a supportive ecosystem during this pandemic for SMEs by equipping them with useful information, tools and solutions that assist them in running their operations efficiently, effectively and sustainably.
- RAKBANK chose Anomali Threat Intelligence Product Suite to detect threats across its Banking Infrastructure.

Recognition in 2020

- 'Best Service Performance Outlet – Services Sector' for 2020 by the Dubai Service Excellence Scheme
- The Number 1 Top Investment House in the Middle East & North Africa by The Asset Benchmark Research
- Honorary Middle East Gold Stevie® Awards 2020 for 'Outstanding Management'
- Best in lead Generation/direct response and conversion– Gold Award by the MMA MENA Smarties Awards
- Best Product/Service launch— Gold award by the MMA MENA Smarties
- Best Promotion of the year— Gold award by the MMA MENA Smarties
- Best Location based Targeting— Gold award by the MMA MENA Smarties
- Best use of Programmatic — Gold award by the MMA MENA Smarties
- Industry Award for the Advertiser of the Year by the MMA MENA Smarties
- Industry Award for the Best in Show by the MMA MENA Smarties

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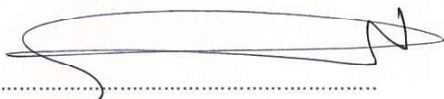
Outlook for 2021

Financial Year 2020 was an unprecedented year in many ways as the financial, economic and operational challenges brought about by the pandemic impacted every organisation and country across the globe. Extreme liquidity stress, lack of credit demand and sluggish growth marred the economy in general and the financial sector in particular. Injection of liquidity by Central Banks across the globe, especially the timely actions by the CBUAE helped the banking sector through very tumultuous times. The management in consultation with the Board of Directors took continually decisive steps to protect the health and safety of all stakeholders and do our best to safeguard the bank's assets.

With vaccines now beginning to be made available globally, some green shoots have started to appear though a rebound in growth to the pre-COVID levels is unlikely until the latter half of 2021. Economic activity in the UAE is in a gradual recovery phase as businesses return to normalcy, especially, the business segments catered to by RAKBANK. The Bank remains cautiously optimistic about 2021 and will continue to remain vigilant.

As the restrictions ease out, the Bank has initiated selective new business on boarding, albeit subdued, targeting specific industries and customer segments and expects to continue the same throughout 2021. RAKBANK will continue to explore opportunities to expand its offerings to a wider range of client/industry segments, while closely monitoring the recovery of economy.

The crisis has brought about a paradigm shift in the manner of doing business with "digital and contactless" coming to the forefront. It has also opened up new opportunities for selective sectors and industries that seemed most resilient both during and in the post COVID-19 era. These include industries such as manufacturing, trading and shipping, logistics, agriculture and more. The Bank intends to enhance its focus on such industries in the coming year as we focus back on growth and supporting the UAE economy.



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Mohamed Omran Alshamsi
Chairman