

## **Management Discussion & Analysis**

We are pleased to present the annual report of your Bank for 2009. The net profit for the year amounted to AED726.15 million, an increase of 14.2% over the previous year. The operating environment in 2009 was without doubt the most difficult the Bank has experienced in its history and the very positive results which have been achieved are a credit to the hard work and commitment of RAKBANK's team during this period of severe economic stress.

The liquidity problems which first appeared at the end of 2008 continued through to the first half of 2009 before improvement was seen following concerted action by the authorities. Whilst liquidity improved this was seen mainly in the interbank market not in the more important customer deposit segment where it could be used for customer advances. However there remains a significant disparity in customer deposit rates between the UAE Dirham and the U.S. Dollar despite the fixed exchange rate. This had the effect of significantly increasing customer borrowing costs which allied with the comparative shortage of available usable liquidity was a further dampener on economic activity.

At the end of the first quarter we began to see a deterioration in certain of our retail segments notably credit card as a result of companies making their employees redundant and a number of those individuals leaving the country without settling their obligations to banks. The bulk of the increase in bad debt provision is a consequence of this situation. The retail credit collections team are to be commended for their excellent performance during the past year in limiting delinquencies to the level shown which is one of the lowest amongst banks with a similar business profile.

Towards the end of the year we saw an improvement in the bad debt position which if maintained should see delinquencies falling to more normal figures in the second quarter of 2010.

## **Financial Performance**

The 2009 net profit was AED726.15 million compared with AED635.9 million the previous year. There has been no change in the Bank's core business which maintains its retail focus on personal lending, credit cards, finance of small and medium enterprises and on mortgage finance. Despite liquidity issues slowing down the Bank's lending during the first part of the year, RAKBANK never stopped lending and by year end had achieved a 23% increase in total assets to AED17.12 billion. Complementing this growth in assets, other income consisting of fees, commissions, foreign exchange, investment and other operating income grew by 8% to AED495.22 million. The Bank remains one of the leading issuers of credit cards in the UAE and it also retains a strong

presence in the retail mortgage market. As business incomes have been affected by the downturn in the economy, some personal and mortgage borrowers have approached the Bank to reschedule loans. In the majority of cases the Bank has accommodated these requests within the existing terms and conditions of its product programme guidelines.

The growth in the asset book has been supported by a combination of increases in customer deposits and shareholders equity. The increase in customer deposits was achieved through growth in both fixed term deposits and transaction accounts.

Investment securities outstanding have declined to AED398.33 million on settlement of maturing investments. For transparency the Bank has provided in notes to the accounts a full list of the investments it currently holds. The Bank intends holding all its bond investments to maturity and on the present information available to us no loss is anticipated. The increase under property and equipment reflects the costs incurred on two new Operations Centres. The first is located in the Dubai Silicon Oasis Free Zone whilst the second is located in Ras Al Khaimah. When completed and occupied between March and May 2010 these two centres will provide the Bank with state-of-the-art premises to support its continuing expansion whilst at the same time providing full disaster contingency back up for its I.T. and other operations.

The Bank continues to expand and the growth in operating expenses seen during 2009 is reflective of this.

During 2009, AED360 million of the Bank's EMTN programme matured and was settled. The opportunity was taken to repurchase a further USD59 million of this programme. The Bank will consider further repurchases in order to reduce liability on maturity given the present state of the market.

The Bank's capital adequacy ratio at the end of the year was 14.2% composed entirely of Tier 1 capital against a current minimum of 11% Tier 1 capital prescribed by the Central Bank of the UAE. With the approval of the Ministry of Finance, the Bank has converted its liquidity support loans given in 2008 into 7 year loans dating from 31<sup>st</sup> December 2009 which because of their term are eligible for Tier 2 status. If that finance is also taken into account then the Bank's overall capital adequacy ratio rises to 18.8% a figure which will be further enhanced on approval by the shareholders of the proposed dividend.

Notwithstanding the significant challenges the Bank faced during 2009 it was particularly rewarding that we were adjudged Top Service Quality Bank in the UAE by the UAE by the Ethos Consulting poll for the 4<sup>th</sup> year running. The entire RAKBANK team are to be commended for this excellent performance.

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The Bank currently has 27 branches across the Emirates with plans to open a further 4 during 2010.

## Rating

The Bank is currently rated by the following leading rating agencies. Their recent ratings are as follows:

Rating Agency	Deposits	Financial Strength	Outlook	Support
Moody's	Baa1 / P-2	D+	Stable	-
Fitch	A- / F2	-	Stable	2
Capital Intelligence	A- / A2	BBB+	Stable	2

We are pleased to note that all our ratings carry a stable outlook.

## Dividend

The Directors have recommended a stock dividend of 20% and a cash dividend of 10%. The Directors consider that the Bank is well placed to meet the considerable challenges which will be faced during 2010. Nevertheless they believe that prudence is required in the distribution of dividend and the recommendation made will result in 90% of net profit being retained within the Bank's shareholders' equity thereby increasing capital and reserves to strengthen the Bank's overall position.

The Bank is increasing in size and complexity and the Directors consider it prudent to increase the general banking risk reserve from AED 150 million to AED 200 million. The Bank has robust credit policies and underwriting but is not immune to external shocks outside of its control. For that reason, the Directors believe it prudent to increase credit risk reserve by AED 200 million to AED 500 million. These measures will increase the Bank's shareholders' equity to AED 2.8 billion at 31 December 2009, of which over 65% is represented by retained earnings and other reserves.

## Outlook for 2010


The Bank will continue to focus in 2010 on the delivery of quality products for our retail and small business customers allied with a high level of customer service quality. Through careful management and good underwriting the Bank has avoided many of the pitfalls seen recently and is well positioned to take advantage of business opportunities as they present themselves this year.

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Key to the Bank's success and indeed to the growth of the economy will be sufficient customer deposits at reasonable rates available to increase lending. This is particularly so given the lack of availability of overseas funding which is affecting the market as a whole. Provided that these issues can be resolved going forward into the year then the Bank has confidence in the success of its ongoing strategy.

We are grateful for the continued whole-hearted support of His Highness Sheikh Saqr bin Mohamed Al-Qasimi and the Government of Ras Al-Khaimah. The Directors also wish to thank the management and staff of the Bank for their outstanding performance during 2009 and the Bank's customers for their continued support.

  
Board of Directors  
07 February 2010

