



RAKBANK

INTEGRATED ANNUAL REPORT 2022

*The digital bank with a human touch, with our
customers in their key moments of truth*

His Highness Sheikh Mohammed Bin Zayed Al Nahyan President of the United Arab Emirates	
His Highness Sheikh Saud Bin Saqr Al Qasimi Member of the Supreme Council Ruler of Ras Al Khaimah	His Highness Sheikh Mohammed Bin Saud Bin Saqr Al Qasimi Crown Prince of Ras Al Khaimah

Awards and Accolades in 2022

Titanium Award The Asset ESG Awards	Best SME Bank Banking Excellence Awards	Best SME Bank in UAE Global Finance Magazine
UAE's SME Bank of the Year Asian Banking & Finance Awards	UAE's Mid-Sized Domestic Retail Bank of the Year Asian Banking & Finance Awards	UAE's Fraud Initiative of the Year Asian Banking & Finance Awards
The Number 2 Top Investment House in MENA The Asset Benchmark Research	Excellence in SME Banking Finnovex Awards	Advertiser of the Year MMA Awards
Machine Learning and AI MMA Awards	Audio Sonic Branding MMA Awards	Customer Experience MMA Awards
Data Insights MMA Awards	Lead Generation / Direct Response / Conversions MMA Awards	Best Vertical Acceptance Product MENA for Skiply EDGE 2022

2022 AT A GLANCE

The Year of Performance Reset

2022 in Numbers

Net Profit increased by AED 405.1 million YoY	Impairment Charges decreased by AED 272.6 million YoY	Gross Loans and Advances increased by AED 2,687.9 million YoY	Return on Equity was 13.5% for FY 22
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Full Year Results (AED million)	FY'18	FY'19	FY'20	FY'21	FY'22
Net Interest Income	2,768.7	2,802.1	2,525.6	2,168.4	2,489.3
Non-Interest Income	1,058.3	1,176.8	1,038.4	1,062.1	962.5
Total Income	3,827.0	3,978.9	3,564.0	3,230.5	3,451.8
Operating Expenditures	(1,488.3)	(1,570.4)	(1,395.3)	(1,395.6)	(1,484.4)
Operating Profit Before Provisions for Impairment	2,338.7	2,408.5	2,168.7	1,835.0	1,967.5
Provisions for Impairment	(1,421.1)	(1,313.2)	(1,663.3)	(1,076.7)	(804.0)
Net Profit	917.5	1,095.3	505.4	758.3	1,163.4

Balance Sheet Highlights (AED billion)	FY'18	FY'19	FY'20	FY'21	FY'22
Total Assets	52.7	57.1	52.8	57.6	66.5
Gross Loans and Advances	34.8	36.3	32.2	35.5	38.1
Deposits	34.1	36.8	36.9	38.9	44.9

Digital Transformation	FY'18	FY'19	FY'20	FY'21	FY'22
Number of Digital Transactions	4,775,486	6,202,560	7,499,599	9,204,447	10,595,609
Logins made by Customers	23,939,907	29,891,658	32,309,338	34,674,183	38,310,369

Simply Better Customer Satisfaction

Overall Customer Satisfaction score:

87%

(2021: 87%)

Diversity and Inclusion at Year-end		
% Senior Management positions occupied by women: 20% (2021: 18%)	Number of nationalities represented on RAKBANK workforce: 56 (2021: 49)	Emiratisation ratio: 19% (2021: 16%)

Preserving Natural Resources	
Direct Electricity Consumption 21,144 million kWh (2021: 22,042 million kWh)	Total Water Consumption 48,407 million litres (2021: 47,480 million litres)

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YEAR IN REVIEW

2022 HIGHLIGHTS

Month	Highlight
February	RAKBANK signs a Memorandum of Understanding (MoU) with Tradeling to provide enhanced value to business cardholders.
February	RAKBANK teams up with Etihad Credit Insurance (ECI), the UAE Federal export credit agency, to boost SME financing through the UAE Trade Finance Gateway, a digitised platform that helps exporters and re-exporters based in the country to obtain finance easily and expand their businesses internationally.
March	RAKBANK's net profit jumps by over 93% in Q1 2022.
April	RAKBANK announces the launch of a "first of its kind" digital on-boarding experience in the region that will enable SMEs to apply for business loans, term and working capital finance and asset based finance through the Bank's Quick Apply portal. RAKBANK became the first UAE bank to enable Kraken to offer transparent, efficient, dirham-based digital asset trading to their customers.
September	RAKBANK reports highest Q3 net profit since 2015, at AED 351 million.
September	RAKBANK joins the AMF's Buna payment platform to provide customers with an enhanced payment service platform for sending and receiving cross-border, multicurrency payments.
September	RAKBANK is awarded the Best SME Bank by the Banking Excellence Awards.
November	RAKBANK and Abu Dhabi Global Market (ADGM), the international financial centre of the UAE's capital, sign a MoU to provide preferential banking services to ADGM-licensed entities. The agreement facilitates efficient bank account opening for all entities, including SMEs, exchange houses dealing in virtual assets, hedge funds and corporations.
November	RAKBANK partners with global AI Cloud leader, DataRobot and local AI service provider e& enterprise, to build and deploy an industry leading AI platform to accelerate its artificial intelligence and machine learning-driven analytics.
November	Exclusive to RAKBANK, RAKINSURANCE develops travel insurance for the FIFA World Cup 2022.
December	RAKBANK and Honeywell announce a strategic energy saving project to help improve energy efficiencies and carbon reduction goals.
December	RAKBANK wins the Asset Triple A ESG Corporate Titanium Award.

About our Annual Integrated Report

RAKBANK's Annual Integrated Report (AIR) provides our stakeholders with a concise and transparent assessment of our business and a holistic view of the Group's operations.

Reporting scope

This report outlines our strategy and business model, operating context, material risks, stakeholder interests, performance, prospects, and governance, for the year 1 January to 31 December 2022. At the same time, the report shares RAKBANK's strategy and implementation approach across the Group.

It deals with the Bank's primary activities, business divisions, and key support units. By highlighting our business practices, strategic objectives, non-financial performance and profitability, the report also aims to provide stakeholders with a means to assess the Group's ability to create and sustain value over the short, medium and long-terms.

Financial and non-financial reporting

This integrated report was prepared in line with the International Sustainability Standards Board (ISSB)'s International IR Framework. The report extends beyond financial reporting and includes non-financial performance, opportunities, risks, and outcomes associated with the Bank's key stakeholders, that have an impact on its ability to create sustainable value. It was prepared on the basis of materiality.

RAKBANK's annual financial statements cover the Bank's activities, as well as all its subsidiaries. The consolidated financial statements as of and for the year ended 31 December 2022 were prepared in accordance with the International Financial Reporting Standards (IFRS) and comply with the provisions of the Central Bank of the UAE (CBUAE) and the Bank's Articles of Association.

Target audience

This report addresses, primarily, the information requirements of long-term investors (our equity shareholders, bondholders, and prospective investors) and outlines how we create value for other key stakeholders, including our regulators, clients, staff, and society.

Environmental, Social and Governance (ESG) reporting

Our approaches to governance and risk management are integrated throughout this report. ESG information is presented in a framework developed in accordance with the Global Reporting Initiative (GRI), United Nations Sustainable Development Goals (UN SDGs), ADX ESG guidelines and the UAE Vision 2030.

Forward-looking statements

This report may contain forward-looking statements based on numbers or estimates or assumptions that are subject to change. These include statements regarding our intent, belief, or current expectations with respect to RAKBANK's businesses and operations, market conditions, results of operation and financial condition, specific provisions, and risk management practices. Readers are cautioned not to place undue reliance on these forward-looking statements. RAKBANK does not commit to publicly releasing the result of any revisions to these forward-looking statements to reflect events or circumstances or unanticipated events after the date of publication. Due care has been used in the preparation of forecast information, but the actual results, either

negative or positive, may be materially different because forecasts and hypothetical examples are subject to uncertainty and contingencies outside RAKBANK's control.

Board responsibility

The Board will approve the AIR on 20 March 2023 and acknowledge responsibility for its accuracy. It will apply its collective expertise, and, in its opinion, this AIR will address all material issues to present an overview of the Bank's performance in the year under review.

Mohamed Omran Alshamsi

Chairman

Feedback on AIR

We welcome your feedback on this report. Please email your comments to ir@rakbank.ae

RAKBANK OVERVIEW

CHAIRMAN'S STATEMENT

Investing heavily in digitisation and building the skillsets of the future

On behalf of the Board of Directors of RAKBANK PJSC, I am pleased to present the Annual Integrated Report and audited Financial Statements for RAKBANK and its subsidiaries for the year ended 31 December, 2022.

Just as the UAE economy accelerated its post-COVID recovery in 2022, RAKBANK's performance has entered a new and transformative era of growth. Following this strong recovery, we are now on track for sustained expansion underpinned by targeted investments and a sharp focus on fiscal and operational resilience.

As a leading financial institution in the UAE, RAKBANK recognises the important role we play in supporting the country's vision and growth for the year 2050. We are committed to investing in technology and innovation to drive financial inclusion and create a more diverse and sustainable economy.

Looking ahead, we foresee 2023 to be a year of opportunity in the midst of uncertainty caused by geopolitical and economic headwinds. Therefore, we will diversify our business mix and further strengthen our credit profile and lay the foundation for long-term, sustainable growth.

Through the execution of our latest multi-year strategic plan, we will build on the Bank's existing strengths, while continuing to transform the Bank to navigate through a challenging external environment, and ultimately exceed the expectations of our customers.

We will continue to accelerate our digital transformation to build digital journeys that enable fast, easy, personal and relevant customer experiences. These outcomes are fundamental to the Bank's continued success.

Good performance despite headwinds

RAKBANK's business momentum grew significantly, enabling us to reinvest resources back into the business. At the same time, buoyant economic conditions in the UAE provided a tailwind to business performance, particularly in the significant reduction of provisions.

The downside was a few trading losses in Q1 on the back of currency fluctuations in emerging markets, but these were clawed back in subsequent quarters. The rising interest rate cycle had a similar impact on our Treasury performance, compelling us to refocus attention on foreign exchange, derivatives and related products.

The Bank strengthened its balance sheet as volumes increased and the UAE economy rebounded, while higher interest rates resulted in improved margins. We grew our CASA book, which was positively impacted by rising interest rates.

Attracting and retaining talent

RAKBANK is steadily building a strong organisational culture that offers opportunities for our employees to develop their skills. This is integral to our mission to attract and retain exceptional talent. To this end, we have enabled increased flexibility at work, created a competitive package so that we can develop niche talents with the critical skills sets the Bank needs. We also understand the importance of supporting the career growth and development of Emiratis and strive to provide them with empowering programmes aimed to contribute to their personal growth and that of the UAE economy.

Enhancing sustainability

Sustainability is an increasingly important tenet of our business. RAKBANK's Sustainability framework focuses on 3 main pillars - the environment, people of determination and community. Internally, the Bank is taking significant steps to reduce our consumption of energy, paper and plastic, as well as recycling and reusing what we can. At the same time, we actively support and encourage our staff to volunteer for internal and external sustainable initiatives. Our support of people with autism continues, raising awareness through our sponsorship of the RAK Autism Centre and our INDIMAJ programme, which provides work experiences for autistic students. In the community, we remain committed to enhancing financial literacy through schools and our employee financial clinic.

Deepak Majithia – a true RAKBANK leader

We were shocked and saddened by the sudden passing of Deepak Majithia, RAKBANK's CFO. Deepak was a highly respected financial professional, admired and followed by his colleagues. A humble and kind leader and mentor, Deepak is sorely missed by everyone at RAKBANK and all who knew him. On behalf of the Bank, I offer my sincere condolences to Deepak's family and may his soul rest in peace.

Acknowledgements

On behalf of the Board of Directors, I extend my thanks to His Highness Sheikh Mohammed Bin Zayed Al Nahyan, President of the UAE and Ruler of Abu Dhabi, and His Highness Sheikh Saud Bin Saqr Al Qasimi, Ruler of Ras Al Khaimah and Member of the Supreme Council.

Finally, I express my appreciation to our shareholders, employees, customers and management for their commitment and loyalty to RAKBANK during the year under review.

Mohamed Omran Alshamsi

Chairman

OUR BUSINESS IN CONTEXT

WHO WE ARE

Founded in 1976, RAKBANK is an award-winning, public joint stock company in the United Arab Emirates (UAE). The Bank provides a range of personal, business and wholesale banking services. It also offers Sharia-compliant personal, business, and wholesale banking services via its Islamic Banking unit, RAKIslamic.

The Government of Ras Al Khaimah directly and indirectly owns 52.8% of RAKBANK's capital. RAKBANK shares are publicly traded on the Abu Dhabi Securities Exchange (ADX).

Ownership Structure as of 31 December 2022

Government of Ras Al Khaimah	52.8%
UAE Nationals	33.0%
GCC Nationals	12.7%
Foreigners	1.5%

Source: ADX

Numbers may not add up due to rounding.

RAKBANK continues to progressively transform the customer experience through digital transformation and adoption of advanced data analytics.

WHAT WE DO

RAKBANK is a full-fledged financial services institution, offering conventional and Islamic banking, insurance and other diversified services offered across RAKBANK's business units and subsidiaries. RAKBANK has been a leading financial institution in the UAE market. It is a clear leader in SME banking, and an established innovator in Personal Banking. In recent years, its Wholesale Banking business has been growing rapidly to now represent a sizeable share of the Bank's financial performance.

RAKBANK Divisions and Subsidiaries	Services and Solutions at a Glance
Personal Banking	- Individual customer financing, credit/debit cards and deposit facilities. - Lending products such as expat loans, national loans, auto loans, credit cards, and mortgages. - Fee-based services like Bancassurance, investment products, foreign exchange, and remittance.
Business Banking	- Non-individual financing and deposit services for SME customers. - Term and Working Capital (TWC), Business Loan, Secured Finance, Asset Based Finance (ABF), Financing against Income Generating Property (FIGP). - Commercial deposit facilities. - Business Loan for businesses with turnovers up to AED 75 million and working capital financing for turnovers up to AED 250 million.
Wholesale Banking	- Financing and deposit services for large corporates which include government, public institutions, Multi-National Companies (MNCs) and private enterprises. - Money market activities, investments in debt and equity securities, foreign exchange and derivatives transactions with other banks, and financial institutions. - Custodian of liquidity and supports the growth of other segments. - Finance activities through relationships with local and out-of-country financial institutions to assist our clients with their local and international banking needs. - Creates correspondent banking relationships for all trade finance products and a broad spectrum of financing options.

RAKIslamic	- Diversified product base of asset and liability products. - Products include credit cards, current and saving accounts, wholesale banking, and other finance propositions.
RAKINSURANCE (RAKNIC)	All insurance related transactions of our RAKINSURANCE subsidiary.

WHERE WE OPERATE

RAKBANK is headquartered in the Emirate of Ras Al Khaimah, in the UAE, with our head office situated in the RAKBANK Building on Sheikh Mohammed Bin Zayed Road in Ras Al Khaimah. Our branches are located throughout the Emirates.

Breakdown of Loans by Geography (%)

Abu Dhabi	12.6%
Dubai	62.9%
Sharjah	7.1%
Ajman	1.8%
Ras Al Khaimah	7.8%
Umm Al Quwain	0.2%
Fujairah	0.4%
Offshore	7.2%

Numbers may not add up due to rounding.

Subsidiaries

Subsidiary	Ownership	Country	Purpose
RAKINSURANCE	79.23%	UAE	Develop insurance products
Back Office Support Services (BOSS)	80.00%*	UAE	Provide back-office support services
RAK Technology	80.00%*	UAE	Supply information technology support
RAKFUNDING CAYMAN LTD	100.00%	Cayman Islands	Enable the issuance of bonds
RAK Global Markets Cayman Limited	100.00%	Cayman Islands	Facilitate treasury transactions
RAK Financial Services Limited**	100.00%	DIFC, UAE	Arranging and advising on financial products, investments and custody.
Protego Insurance Brokers L.L.C. ***	100.00%	UAE	Insurance brokerage

*These represent legal ownership of the Bank. However, beneficial ownership is 100% as the remaining interest is held by a related party.

** RAK Financial Services Limited was incorporated under Dubai International Financial Centre ("DIFC"). DIFC's approval for commencement of business and capital infusion was received in June 2022 and capital of USD 1.3 million was subscribed during June 2022.

*** Protego Insurance Brokers L.L.C is registered under the commercial license issued by the Government of Dubai's Economy and Tourism department in July 2022. The Company received regulatory approval in August 2022 from the Central Bank of the UAE.

VISION, MISSION, VALUES AND PERSONALITY

Vision

The digital bank with a human touch, with you in key moments of truth.

Mission

To become a leading customer-focused bank in the UAE, offering convenient access to innovative and competitive financial products across multiple channels to individuals and businesses.

Values

- **Integrity:** RAKBANK knows that trust is fundamental and to be trusted, it must remain competent and honest.
- **Transparency:** The Bank discloses all product Terms and Conditions with the use of simple language on its website and at various points of sale.
- **Collaboration:** RAKBANK builds diverse teams to generate better ideas and act as responsible partners with all stakeholders and regulators to serve the wider interests of society.
- **Accountability:** RAKBANK recognises that ultimately it is accountable to its shareholders, and so focuses unrelentingly on maximising long-term shareholder and asset value.

Personality

- **Action:** RAKBANK believes in getting things done and considers efficient decision-making to be paramount.
- **Clarity:** The Bank aims to provide information to its customers that is clear, simple, and regularly updated through the Bank's website and other communication channels.
- **Agility:** RAKBANK likes to think of itself as 'Simply Different'. It is driven by the changing and dynamic needs of its valued customers.
- **Innovation:** The Bank is firmly committed to investing in smarter banking solutions and increasingly uses technology to make its range of services more accessible to more customers, wherever they are.

OUR KEY RELATIONSHIPS

RAKBANK's stakeholders directly impact our ability to create value. Our growth and profitability are underpinned by the management of our relationships with customers, employees, investors, regulators, suppliers and the broader communities in which we operate.

Our **material stakeholders** are groups or individuals with a significant level of influence on our business or those who may be heavily impacted by our presence. We engage with them regularly and our strategies and business planning are deeply influenced by understanding our stakeholders' concerns and expectations.

By establishing good lines of communication with our various stakeholders and maintaining constructive relationships, we are better equipped to identify opportunities and risks early on and address these timeously. RAKBANK focuses on the issues that matter most to its stakeholders and places immense importance on delivering short, medium and long-term value to the following key stakeholder groups.

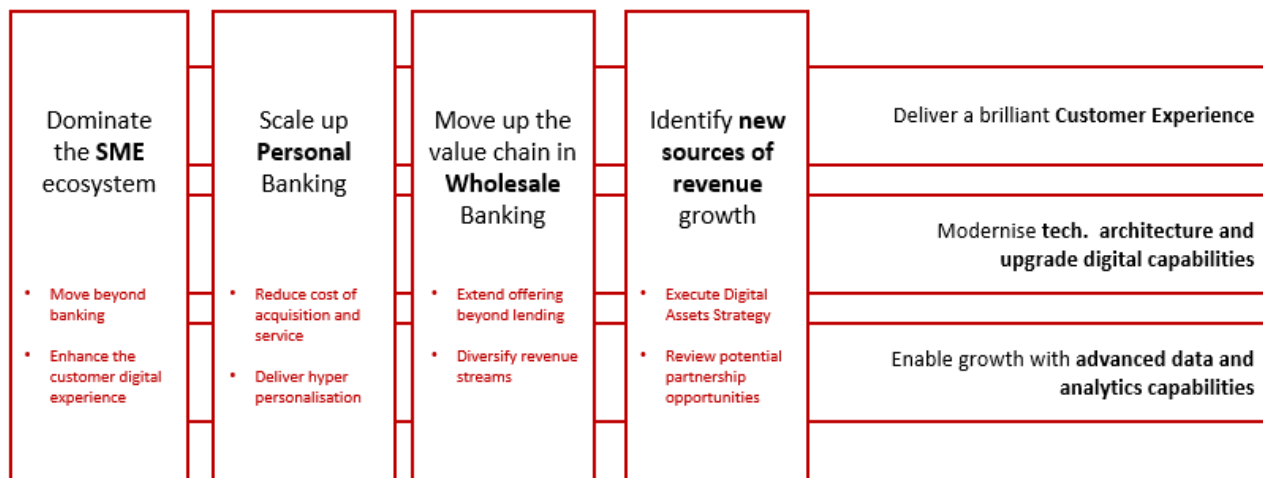
Material stakeholders

- Customers
- Employees
- Shareholders and investors
- Environment
- Local community
- Suppliers
- Government and regulators

OUR BUSINESS MODEL

RAKBANK creates and delivers value by providing financial services that meets our customers' needs and enhances their ability to manage and benefit from the financial products they use.

The resources that the Group relies on to carry out its operations and deliver specific products and services are transformed in a way that results in certain outcomes. The following infographic provides a top-line analysis of the Group's strategic business activities alongside the relevant resource inputs and outcomes.



STRATEGIC REVIEW

CEO'S STATEMENT

The digital bank with a human touch, with you in key moments of truth

A year of reset

2022 marked a year of reset, as the Bank delivered a marquee year of recovery and growth.

A reset of performance: where we have achieved a V-shaped recovery by curbing the declines experienced in the pandemic years. We reignited growth on both sides of the balance sheet, while prudently managing costs and strengthening our capital position.

A reset of strategy: where the Board, the Management and employees across the Bank set out our vision to become the 'digital bank with a human touch, with our customers in their key moments of truth' and defined the strategic programmes to achieve that vision.

A reset of the way we work: working as one team, across departments front to back, towards a common goal with clear ownership and accountability.

With the year of reset behind us, we have the strength and confidence to look ahead.

Creating RAKBANK's personalised customer journeys

RAKBANK's refreshed multi-year strategy focuses on increasing business through digital innovation and diversifying revenue streams.

Driven by data, technology and digitisation, and accelerated by the pandemic, our customer needs are constantly changing, and their demands and expectations for better banking services have followed suit. Most importantly among these is to bank instantly, anywhere, anytime. To this end, we have set out to create a seamless and brilliantly curated digital experience, where we will leverage data and insights to deliver the most personalised and relevant solutions for all of our customers. These experiences will be augmented by "human touch" when the customers go through critical moments of truth and want to engage with our colleagues through conventional channels such as banking branches, the telephone or online chat. As the customers set out to get their needs served and go through customer journeys, we are investing heavily to ensure that these journeys are designed and delivered to be fast, reliable, intuitive and safe every time.

Sustainable growth

The normalisation of economic activity following the pandemic has reinforced RAKBANK's growth opportunities driven by all 3 segments, namely Business Banking, Personal Banking, and Wholesale Banking. The latter is a recently formed division which consolidates 3 of the Bank's business lines, i.e., Financial Institutions Group (FIG), Treasury and Wholesale Banking. Simultaneously, we intend to actively diversify RAKBANK's business

and customer base while retaining the focus on our core strengths in Personal and SME Banking. In addition to these traditional banking businesses, we are actively seeking opportunities to expand our business model and identify additional revenue streams to support our longer-term vision of going “beyond banking” to create the products and services our customers need.

A year of delivery

With the successful completion of the reset phase, now it is time to deliver on the new strategy. We will continue to develop a sustainable business mix including growing the contribution of ‘lower risk’ segments such as Wholesale Banking, Commercial Banking and the Affluent Segment. We will change the way the Bank generates revenue by reducing our reliance on unsecured lending and increasing the proportion of fee and non-financing income as well as deepening relationships with our customers across all segments. Finally, we will create a more scalable business by making investments to enhance our digital journeys and capabilities and improve efficiency in both customer acquisition and servicing.

To enable this transformation, we will make bold and continued investments in our people, technology and analytics capabilities. Alongside this, we will actively manage our credit, risk and compliance practices to get ahead of the dynamically shifting macro and regulatory environment. We will fund these enablers through driving efficiency as we simplify the way we work and automate our processes.

As we work on these strategic deliverables, we continuously remind ourselves of our north star to stay ahead of the curve in customer experience. We understand that the hallmarks of a superior customer experience are hyper-personalisation and relevance, achieved through harnessing the power of data and analytics. To this end, we at RAKBANK will continue to make strides in building trusted partnerships with our customers, as we believe this is ultimately the way we compete - and win.

Acknowledgements

I wish to thank the Board for its support during the year, our customers for their continued trust, and all our employees and partners who are delivering this innovative journey together with us.

Raheel Ahmed

Chief Executive Officer

OUR VALUE CREATING BUSINESS STRATEGY

RAKBANK's multi-year strategic diversification journey, which continued through challenging periods, has delivered strong results in 2022.

Our strategy aims to increase value through effective and efficient growth. This will be achieved through:

- Creating a sustainable business mix.
- Changing the way the Bank generates revenue.
- Building a more scalable business.

The Bank continually reviews its resources and seeks out the best approaches to adapt to the demands of the modern environment and surrounding circumstances. As the UAE economy re-opened and restrictions on movement and business activities eased, the Bank saw a strong recovery across all business lines.

In 2022, the Bank continued to diversify exposure from relatively high-yield and high-risk assets to a more sustainable asset base across multiple areas of its operating model.

We have also begun to make investments and deliver enhancements on end-to-end digital services across multiple business segments with the aim of delivering to our customer's seamless journeys which are both personalised and intuitive. We are also continuously improving our governance and risk management practices, including increasing use of data and analytics, to ensure the Bank prudentially manages risk while focusing on growth.

Strategic outlook

Following the Board's approval of a refreshed strategy during 2022 the Bank has begun to deliver on plans across all business and functional areas, building upon the strong strategic foundation of a market-leading Business Banking business, a strong and innovative Personal Banking segment and growth in Wholesale Banking.

The strategy outlines a number of key areas which align to RAKBANK's strengths and present viable opportunities to pursue growth in a highly competitive market.

The Bank will continue to enhance its client facing and back-office capabilities to deliver compelling customer value propositions to both new and existing customers.

RAKBANK's Strategic Plan to 2026

A bank-wide strategic review gave rise to a new strategic plan to take us to 2026 and RAKBANK's 50th anniversary. The new strategy incorporates plans for the core business lines (Personal, Business and Wholesale) as well as our enablement functions. Through our Business Banking product suite, we aim to continue dominating the SME market and enhancing our digital offering to customers in this segment as well as supporting the UAE's SME ecosystem.

We intend to scale the Personal Banking division, improving efficiency and delivering digitisation and innovation while also developing our customer propositions for key segments identified for growth including Emiratis.

In the Wholesale Banking division, we will continue our growth and focus on exploiting adjacent revenue and continuing to diversify our customer base.

We will achieve this by delivering a brilliant customer experience across all segments, underpinned by investments and improvements in our digital and analytics capabilities to deliver personalised and seamless interactions. We will also drive enhancements to our broader technology infrastructure to ensure the Bank can deliver for customers in the most efficient way possible while also complying with all necessary regulatory enhancements.

Delivering on our Vision

Our vision is to be a digital bank with a human touch that is with our customers in their key moments of truth.

To deliver this, we will continue to transform all areas of the Bank to ensure we provide our customers with the banking services they require in the way they now expect. The focus during 2023 will be on the delivery of the first stage of the refreshed strategic plan.

Operational Review

This review covers RAKBANK's performance in 2022 and provides a summary of our results. It also covers each principal business unit's objectives and achievements for the year.

Group performance

COVID-19 restrictions eased during the second half of 2021 allowing the Bank to regain positive momentum at the onset of 2022. The Bank consequently recorded robust growth on both sides of the balance sheet across our businesses, with an increase in sales and an improvement in credit metrics.

Key themes for 2022

Despite the headwinds from the geopolitical uncertainty and rising global inflation, RAKBANK's 2022 performance was underpinned by:

- Resilient economic conditions in the UAE that allowed for broad based credit growth.
- Strategic change in the business mix and a healthy portfolio performance ensuring provisions remained in check.
- The rising interest rate environment strengthening the top-line growth.

RAKBANK's performance in the current operating environment

The overall income outcome for 2022 reflected a healthy high single digit growth as the first quarter saw some trading losses after adverse currency movements in certain emerging markets as we had to cap positions and take losses due to the prevailing geopolitical environment. Consequently, the first quarter was an anomaly as the loss was recouped in subsequent quarters.

The Bank continued its focus on the transactional and liquidity side of the business like foreign exchange transactions and growing our low cost current and savings account customer base. Being a strong, low cost Current Accounts and Savings Accounts (CASA) franchise, the Bank benefitted in the ensuing rising interest rate regime.

Managing costs

The Bank continued to invest for growth and remains committed to disciplined cost management. As a part of the Bank's strategic plan, we continued to invest in capabilities and technology that allow us to improve our service capabilities, while improving efficiency and lowering operational costs.

Exchange rate volatility

Exchange rate volatility in the initial part of the year affected most emerging economies in general, but in particular Sri Lanka, Turkey, Lebanon and Egypt, especially with the sharp increase in US Dollar interest rates. The cross-border investments and exposures in selective emerging economies were not entirely immune to these fluctuations however, the Bank ended the year on a strong note, managing these risks through prudent diversification and portfolio rebalancing.

Driving sustainable growth

The Bank implemented a new strategy focusing on creating a more sustainable business by increasing exposure to lower risk segments, focusing on the share of non-financing and fee-based revenues, and increasing the proportion of secured lending in both Personal and Business Banking. The change of the balance sheet composition and consequently the resulting change in the business mix ensured that the provisions remained well under control.

Liquidity and capital

After taking into consideration the profit for 2022 and the expected dividend, the Bank's Capital Adequacy ratio as per Basel III was 16.4%. This level of capital provides the Bank with ample room for growth in 2023 while remaining liquid with the regulatory Eligible Liquid Asset ratio at the end of the year at 12.8%, compared to 11.6% for the previous year and the Advances to Stable Resources ratio at a comfortable 79.7% compared to 82.8% at the end of 2021.

Future outlook

RAKBANK is poised for continued growth and success and remains a strong and reliable partner to our customers and communities. The UAE economy has been experiencing positive momentum in recent times. Over the last year, the country has seen steady growth, driven by a combination of factors such as increased investment, improved infrastructure, and a thriving tourism industry. The country has also been successful in diversifying its economy and focusing on sectors such as finance, real estate, and technology. This has resulted in a more stable and resilient economy. While the UAE's economy is affected by fluctuations in oil prices, we see the positive momentum continuing from 2022 into the first half of 2023.

Global inflation has been on the rise in recent times, driven by various factors such as supply chain disruptions, increased consumer demand, and higher energy prices. Whilst the risk of a deep global recession seems to be receding, we continue to proactively monitor the risks to the global economy and their impact on our customers and business.

We will be focusing on 3 key areas to drive growth and transformation in this era of change:

Innovation - Driven by the technology landscape, growing reliance on AI with changing customer demands and expectations.

Sustainability - Through advocating for sustainable policies and practices as well as contributing to a more sustainable future.

Customer Experience – This has become a key differentiator in the banking industry and a critical factor in attracting and retaining customers. We believe that it is a critical component of our long-term success.

We are confident that our investment in these areas will not only benefit our shareholders' returns and profitability but will also help lead us in our journey to becoming a digital bank with a human touch while positively contributing to the UAE economy and supporting our customers in their financial wellbeing and financial planning.

Assets and Advances Growth (AED billion)

	Dec '18	Dec '19	Dec '20	Dec '21	Dec '22
Gross Loans and Advances	34.8	36.3	32.2	35.5	38.1
Total Assets	52.7	57.1	52.8	57.6	66.5

Total Customer Assets by Segment (AED billion)

	Dec '18	Dec '19	Dec '20	Dec '21	Dec '22
Personal Banking: 40%	18.5	18.7	16.7	18.7	18.8
Business Banking: 20%	10.1	9.8	8.3	8.1	9.0
Wholesale Banking: 36%	6.3	7.8	7.2	8.7	10.3
FI Loans - Banks	3.5	5.7	5.3	6.7	9.3
Total (Wholesale + FI Loans)	9.7	13.4	12.5	15.4	19.6

Customer Deposit Growth (AED billion)

	Dec '18	Dec '19	Dec '20	Dec '21	Dec '22
Current	16.5	18.4	23.0	24.1	27.1
Time	13.4	13.9	8.9	9.5	13.3
Savings	2.9	3.3	3.8	4.0	3.3
Call	1.3	1.2	1.2	1.3	1.2
Total	34.1	36.8	36.9	38.9	44.9

Financial Performance: Snapshot

Economic Performance (AED 000)	2018	2019	2020	2021	2022
Direct economic value generated	4,514,153	4,834,609	4,095,332	3,488,597	3,955,632
Economic value distributed	(3,596,632)	(3,739,347)	(3,589,955)	(2,730,297)	(2,792,195)
Other operating costs (including donations and sponsorships)	(552,219)	(623,890)	(558,815)	(579,544)	(594,090)
Employee compensation	(927,185)	(934,337)	(830,367)	(809,817)	(885,430)
Payments to providers of capital	(687,166)	(855,695)	(531,304)	(258,059)	(503,785)
Payments to government	(8,916)	(12,207)	(6,166)	(6,213)	(4872)
Provisions	(1,421,146)	(1,313,217)	(1,663,302)	(1,076,663)	(804,018)
Net profits	917,520	1,095,262	505,378	758,300	1,163,437
Total operating income (AED revenue)	3,826,986	3,978,915	3,564,029	3,230,538	3,451,847
Dividends paid to/proposed to shareholders	502,873	502,873	251,437	377,155	569,923
Shareholders' equity	7,126,805	7,841,557	7,844,958	8,381,842	9,025,108
Return on (average) equity (%)	13.5%	14.9%	6.5%	9.5%	13.5%

Contribution of RAKBANK Net Profit by Business Segment

	2018		2019		2020		2021		2022	
	AED 000	%	AED 000	%	AED 000	%	AED 000	%	AED 000	%
Personal Banking	258,872	28%	163,403	15%	(15,247)	-3%	23,028	3%	412,023	35%
Business Banking	474,931	52%	645,688	59%	64,683	13%	273,108	36%	810,065	70%
Wholesale Banking	139,605	15%	117,738	11%	104,943	21%	177,495	23%	232,239	20%
Treasury	194,151	21%	380,540	35%	623,368	123%	608,925	80%	(22,747)	-2%
Insurance	25,023	3%	2,385	0%	14,625	3%	10,473	1%	(34,974)	-3%
Unallocated and Consolidated ADJ	(175,062)	-19%	(214,492)	-20%	(286,994)	-57%	(334,729)	-44%	233,169	-20%
Total	917,520		1,095,262		505,378		758,300		1,163,437	100%

Digital Transformation and Innovation

Overview

In 2022 RAKBANK continued its investment in digitising the Bank, with a focus on enhancing customer experience across Personal and Business Banking.

RAKBANK's new agile delivery squads delivered end-to-end on-boarding journeys for Personal Banking customers to open current and savings accounts and apply for credit cards. To run these projects and lead the Bank's digital transformation, RAKBANK established a Design and Innovation team to pioneer human centred design and agile ways of working.

Performance

In the fourth quarter of 2022, RAKBANK initiated closed user group testing of the minimum viable product for the on-boarding services that are available through our mobile app. These services enable straight-through processing (STP) for most applicants. To achieve this, RAKBANK integrated a range of internal and third-party backend services for a seamless journey that undertakes credit checks, including the Ministry of Interior's Emirates Facial Recognition (EFR) technology that facilitates instantaneous issuance of virtual cards.

Additionally, in 2022 RAKBANK initiated a comprehensive review of all customer journeys to identify further opportunities to improve quality of service and reduce turnaround time. Based on this analysis, we are implementing a front-to-back streamlining of all customer journeys that doesn't have STP functionality yet.

Digital Transformation (000)	2018	2019	2020	2021	2022
Digital transactions	4,775	6,216	7,507	9,110	10,596
Customers who are digitally active	228	231	236	238	264
Logins	23,939	29,891	32,309	34,674	38,310

Challenges and opportunities

The pace of digital transformation is set to accelerate further in 2023. The regulator has signalled their intention to roll-out Open Finance regulation that will require banks and financial institutions to make customer data and payment initiation accessible to third parties. Anticipating this next phase of change, RAKBANK increased its investment in a Digital Factory delivery model that will complete the digitalisation of Personal Banking and start the development of STP on-boarding services for Business Banking customers. Along with improvements to our digital services for prospects and customers, RAKBANK will relaunch its website to provide an intuitive and more personalised service for all visitors to our site.

Personal Banking

In 2022, RAKBANK Personal Banking implemented strategic changes to its business model that focus on attracting more diverse customer profiles, while investing in digitisation. Among these is our digital account on-boarding. Card spends reached a record high on the back of growth in new acquisition and successful spend campaigns.

RAKMoneyTransfer increased the number of customers by 60% and reached a historic high in transactions. This can be attributed to significant growth in transaction numbers with Nepal, the Philippines, India and Pakistan. RAKBANK will expand RAKMoneyTransfer footprint to more than 200 countries and territories.

Over the last few years, we have been supporting financial inclusion and quicker adoption of digital remittance solutions by the blue-collar workforce in the UAE through our WPS partner Edenred and the United Nations Capital Development Fund (UNCDF), to bring this previously underserved segment into the financial ecosystem and increase the number of female customers that are part of this segment.

Merchant Acquiring increased transaction volumes by 29% and transaction numbers by 33%. More than 50% of this was recorded via e-commerce.

Strategically, we focused on the following areas:

- Building deeper relationships with our customers.
- Providing world-class, comprehensive value propositions to address all customer needs.
- Redesigning the customer journey to ensure that we provide the best user experience (UX) in the market.
- Becoming more efficient and more digital so that customers are served better and faster.
- Running a modern and capable distribution network.
- Driving sales through digital channels.

Key achievements

Loans

During the year under review, we continued to implement risk-based pricing and successfully channelled new sales towards secured lending.

Cards

Card spends grew by more than 19% year on year on the back of successful spend campaigns, digital card activation and strong acquisition growth. In 2023 we will be launching a digital on-boarding platform for new card customers. This platform will include facilities for instant approval, credit limit assignment, and a virtual card issuance.

Liabilities

Liability balances of Personal Banking increased by more than 30% in 2022. A digital account opening facility was launched and allows for seamless opening of current and savings accounts on the mobile app.

RAKMoneyTransfer

This facility grew significantly year on year, increasing the number of new users by more than 60%, with numbers of monthly transactions reaching historical highs. We registered double-digit growth in transaction numbers with Nepal, the Philippines, India and Pakistan. RAKBANK will expand the current RAKMoneyTransfer footprint to more than 200 countries and territories, while including new payment solutions such as credit to wallet and credit to card.

C3Pay Card

RAKBANK partnered with the United Nations Capital Development Fund (UNCDF) to enable access for, and increased financial inclusion of, blue-collar workers through the Edenred solution. The main goal was to expand the number of female customers. RAKBANK exceeded expectations with a more than 22% increase in female customers, as well as a pleasing overall 16% increase in new customers who used the digital remittance service at least once in 90 days.

Distribution network

RAKBANK recorded a 42% drop in branch footfall between 2019 and 2022, largely due to successful migration of customer transactions to alternative channels. As a result, RAKBANK closed 7 branches in 2022. In total, 99% of financial transactions in 2022 were processed through digital channels.

This year, in Dubai Motor City, we launched the first digital branch with an Interactive Teller Machine. This virtual branch offers cash withdrawals, cash deposits and cheque withdrawals. In the next phase, the branch will provide on-demand printing of cheques, bank statements and customer letters.

Merchant acquisition

Merchant Acquiring increased transaction volumes by 29% and transaction numbers by 33%. More than 50% of this was recorded via e-commerce.

Digital channels

During 2022, RAKBANK launched end-to-end, automated back-to-original top-up loans for existing conventional personal loan customers. Our Islamic Personal Finance will follow suit in due course. In addition, we introduced digital facilities for opening Savings RAK Invest accounts in up to 6 currencies (AED, USD, EUR, GBP, CHF, CAD).

Total Customer Assets by Segment (AED billion)

	Dec '18	Dec '19	Dec '20	Dec '21	Dec '22
Expat Loans: 9%	4.4	4.8	4.0	3.5	3.5
National Loans: 6%	2.7	2.5	2.3	2.0	2.1
Auto Loans: 1%	1.6	0.9	0.5	0.4	0.4
Mortgage Loans: 20%	4.7	5.4	5.6	7.2	7.7
Credit Cards: 6%	3.2	3.1	2.2	2.1	2.2
Others: 8%	1.9	2.1	2.1	3.5	3.0

Personal Banking Customers	2018	2019	2020	2021	2022
Total number of Personal Banking customers	499,800	505,916	480,381	465,160	469,367
Total value of Personal Banking loan portfolio (AED billion)	18.5	18.7	16.7	18.7	18.8

Business Banking

Overview

RAKBANK remains the preferred banking partner for SMEs, which have been the cornerstone of sustainable development in the region for the last 2 decades. The market is now seeing stable business activity and is returning to pre-pandemic levels, with sectors such as tourism and hospitality, services and e-commerce doing well. However, trading and re-export businesses could slow down, given the rising interest rate and inflation environment.

Approximately 78,000 customers, across industries, ranging from start-ups to established entities, currently use RAKBANK Business Banking products and services. We offer the convenience of a comprehensive solution that meets all the needs of a small business, and which go beyond just banking. These encompass employee payroll, merchant solutions, cash management products, lending, insurance, as well as treasury solutions. In selected sectors, SMEs are riding the wave of opportunities presented by the pandemic, with new businesses and business models having emerged, largely in the services and digital sector. We also work with fintech partners to leverage technology that improves our banking solutions – as is the case with SMEsouk – our digital community platform.

In response to the liquidity and convenience that are of prime importance to SME clients, RAKBANK keeps evolving and expanding its product offering by exploring quick and simple digital channels. These enable customers to easily access the Bank's products and services. We continue our efforts to make our customer digital experiences seamless and robust. The Bank's digital on-boarding for new business accounts continues to flourish and we introduced the digital journey for our business loan product in the last year.

Performance

RAKBANK's Business Banking division performed well in 2022. This was fuelled by increased credit demand as well as new business. Highlights include:

- Approximately AED 2.7 billion granted in the form of loans / working capital / asset based finance.
- Loans to point of sale (POS) and ecommerce merchants improved to approximately 25% of the total loans disbursed each month. We expect this to increase in 2023.
- More than 1,000 new business accounts each month, with more than half of these being start-ups and/or new businesses.
- > 50% of trade dealings are with local manufacturers or aggregators. Trade finance transactions indicate an increase in local trade, and increased reliance on local manufacturing. Businesses now want a fallback option to mitigate against potential future lockdowns, border restrictions, shipment delays, and the like.
- While most 2021 commercial real estate procurements were for rental substitution, we noted an uptake in purchases by manufacturers for expanding their operations. These commercial real estate investments generally fell into the above AED 5 million category.
- Improved credit loss ratios across all product lines.

- The Bank was recognised in 3 different forums for their SME business. We have won the “UAE’s SME Bank of Year” from Asian Banking & Finance Awards, “Best SME Bank in the UAE” from Global Finance Awards and Banking Excellence Magazine Awards, and “Excellence in SME Banking” from Finnovex Awards.

In line with our strategy, we have continuously worked to enhance our customers’ digital experience. Increasingly, they are using digital banking services and digital channels to open accounts, apply for loans and take advantage of the SMEsouk. Digital banking transactions for business customers have increased more than three-fold in the last 5 years, while the majority of new business accounts are being opened via the digital on-boarding platform.

In 2022, the Business Banking division introduced the following:

- Digital application for business loans, small value working capital finance and asset-based finance – these can also be accessed at our quick-apply kiosks.
- Zero-balance accounts for our merchants.
- Version 2.0 of SMEsouk was released and now allows merchants to list their products, deals and offers.
- The RAKBANK Commercial Business division has been re-positioned to serve the upper end of the SME market.

Community engagement

As a market leader, we are responsible for engaging with the community. We see the enormous value of the SME sector’s contribution to job creation and the UAE’s GDP. As part of our SMEsouk initiative, we engage with our SMEsouk advisors to add value to that platform. We also offer topical webinars for SME clients on issues important to them, for example the imminent introduction of the new Corporate Tax, cyber risks and security, as well as digital marketing.

In the context of our broader objective to make SMEs more bankable and sustainable, we continue to leverage technology to improve both client experience and manage the Bank’s risk.

We have also launched our Sail to Success campaign whereby RAKBANK, through our various social platforms, highlight the success stories of our new entrepreneurs to help them further themselves in their business journey.

Wholesale Banking Group

Overview

In line with the Banks strategic realignment, in H2 2022, the Wholesale Banking division underwent a re-organisation bringing together the Financial Institutions Group and International, Treasury and Corporate Banking. The consolidation was aimed at amalgamating, expanding and reinvigorating RAKBANK's wholesale products and services proposition with an aim to achieve optimisation and cross functional coverage across segments.

The newly formed WBG mandates a 2-pillar functional responsibility across 3 business segments and multiple products. The first pillar entails managing overall customer journey and services while the second functionality comprises of developing products and solutions in financial markets, trade finance, cash management, corporate finance, DCM etc. to serve the needs of corporate, government and financial institution customers.

Performance 2022

Financial Institutions Group (FIG)

During 2022, the Financial Institutions Group (FIG) continued to deliver a robust performance, notwithstanding a tough operating environment driven largely by the conflict in Eastern Europe. It recorded 29% growth in assets and 15% growth in net profit compared to 2021. This growth was mainly driven by a relationship-based approach and our continued focus on top tier banks in our key geographies, yielding strong asset growth while we continued to focus on short-dated trade transactions and funding.

Despite global supply chain challenges, we have seen increased activity and growth across our trade portfolio, which has allowed us to maintain market presence and access for clients in some of our core geographies in Africa, Gulf Cooperation Council (GCC), South-East Asia and Asia. Leveraging key partner banks, we have been able to grow our presence in some new target markets and have grown our off-balance sheet portfolio by 160% YTD. During the year, FIG secured senior participation roles in significant transactions in Nigeria, GCC and other markets. Our clear and focused strategy in FIG, highly skilled team of professionals and local knowledge of our core markets has allowed us to grow the business and a sustainable portfolio, supported by strong risk and credit principles.

In Q4 2022, RAKBANK received approval from the Central Bank of the UAE to establish a Representative Office in Bangladesh. Subject to final Bangladesh Central Bank approval, this office is expected to open by Q3 2023. Over the past 7 years, RAKBANK has continued to grow its FIG business in Bangladesh and has a strong understanding of the market and positive relationships with key market players. This on-the-ground presence will allow RAKBANK access to real-time market changes and information resulting in enhanced credit and risk controls. At the same time, it will also enable us to grow the FIG business while supporting our broader client base.

We will manage our growth cautiously in 2023 within the continuing global economic slowdown, largely because of the conflict in Eastern Europe, and within acceptable risk and credit metrics. We aim to grow our “flow and fee” business and will continue to support key clients and relationships in our core markets.

Total Customer Assets – FIG (AED billion)	Dec '18	Dec '19	Dec '20	Dec '21	Dec '22
FI Loans: 24%	4.9	8.1	6.6	8.9	11.5

Corporate Banking

On the Corporate Banking side, we saw the ongoing recovery of our key clients in the aviation, hospitality and infrastructure industries and elected to focus our efforts on these sectors. Our deal trajectory for the year remained strong and through bilateral as well as syndicated transactions, we have successfully continued on-boarding efforts in our target segments. This year has seen a further streamlining of our businesses in preparation for RAKBANK’s new multi-year strategy. For 2022, in addition to the new corporate structure, we have seen strong asset growth in our Corporate business. As the National Bank of Ras Al Khaimah, we also embarked on a strategy to become the “go to Bank” in this region. We aim to grow the government related, mid-corporate business in the Emirate, with this new approach taking us into 2023 and beyond.

During the year, we created a new specialist segment - Energy and Natural Resources. This segment focuses on driving transactions with key energy clients in the UAE. With greater focus on some of the largest commodity traders in the world, this will expand our exposure to the commodities sector. As ESG has become integral to banks and businesses globally, the commodity and energy traders have increased their attention on the ESG space, and this will assist us as we expand our ESG related business in the Bank.

Overall, the corporate portfolio remains well diversified and saw gross new financing of nearly AED 2.3 billion, which helped mitigate the impact of large early financial settlements and routine repayments during the year. Equally, we have seen solid growth across the liabilities portfolio, driven mainly by our Ras Al Khaimah franchise.

In our home base of Ras Al Khaimah, in line with the focus of the Emirate’s Government, our focus remains in the hospitality, manufacturing and real estate development segments. The 2022 year has seen us take the lead in key transactions that will allow us to further grow our presence in Ras Al Khaimah. Our relationship-based approach will allow us to cross-sell the Banks’ products to our clients in all regions, and to drive business flow more aggressively in 2023.

The Bank’s business in Abu Dhabi, a strategic region for us, showed good growth in 2022, and we plan to expand there from 2023.

Total Customer Assets – Wholesale Banking (AED billion)	Dec '18	Dec '19	Dec '20	Dec '21	Dec '22
Corporates: 9%*	2.5	2.7	2.8	3.6	4.3
Government Related Entities: 7%	2.3	2.7	3.1	2.7	3.5

* Corporates include trade services and manufacturing, diversified corporates, Ras Al Khaimah, multinational companies and gold loans. Numbers may not add up due to rounding.

Treasury

Treasury is the custodian of the Bank's liquidity and actively manages the Bank's asset and liability books, investment portfolio and trading activities. Operating out of a modern, automated and fully integrated dealing room in Dubai, Treasury houses the pricing, structuring and execution of various financial market products in foreign exchange, commodities, interest rates and precious metals.

Cross asset dealers are in constant contact with regional and global financial markets as well as bank customers with the aim of maximising benefits and hedging against adverse movements in volatile market conditions.

Treasury offers comprehensive solutions using vanilla and exotic strategies in various asset classes.

The Treasury division navigated a tumultuous year - global financial markets reeled as the US Federal Bank (FED) frequently hiked interest rates to curb rising inflation. The Russia-Ukraine conflict escalated, giving rise to sharp corrections in the foreign exchange, equity, fixed income and commodity markets. Despite the impact of foreign exchange revaluations and provisioning in some of the markets, our strategy to rebalance the investments duration and asset class mix stood the Bank in good stead.

The customer franchise showed a strong trend in foreign exchange and derivatives on the back of a recovery in the local market. This bolstered revenues by 34% YoY and contributed AED 141.5 million.

RAKGOLD's proposition as the region's first fully-fledged Bullion Bank gained significant traction in 2022. This Radio Frequency Identification (RFID) technology-based inventory financing product, which forms part of the Bank's offering, was expanded to service major market and industry players. RAKBANK's physical trading capabilities enabled customers to access and trade the precious metal both locally and internationally. Our retail proposition, which facilitates easy access to trading gold in small amounts, saw significant churn, which consolidated during dips.

With the FED's outlook on rising interest rates softening, we anticipate an inversion of the yield curves which, coupled with the last stage of LIBOR transition, will likely result in a challenging 2023. However, as a result of our rebalancing strategy implemented from Q1 of 2022, Treasury is well positioned to expand its product offering in the face of these headwinds.

With the consolidation of Wholesale Banking, Treasury added various new initiatives to its strategy. While we will continue evolving our product suite to improve customer support and diversify the Bank's portfolio, we will also focus on cross selling in 2023. This includes Transaction Banking, enhancing our digital assets product offering as well as building our debt capital markets and corporate finance capability.

In 2022, and in line with the Bank's overall digitisation strategy, Treasury completed Phase 2 of its end-to-end solution for complex products and strategies. The division is also rolling out RAKFx, our online customised digital platform through which customers can access real-time, competitive forex and precious metals rates and transactions.

2023 is expected to be a year of consolidation for global financial markets. While signs point to slowing interest rate increases, a global recession is highly likely.

Islamic Banking

Overview

Our RAKIslamic Business aligns with RAKBANK's customer obsession approach and caters to a growing demand for Islamic Banking products and services across all RAKBANK business verticals.

RAKIslamic's product base is diversified in terms of asset and liability products, servicing around approximately 98,000 customers. These include credit cards, current and saving accounts, business and wholesale banking, and other finance propositions. It also includes our innovative and unique Fawrun deposit account, which offers attractive profit, in advance, on balances and encourages customers to save for long periods.

RAKIslamic is committed to aligning with the regulations of CBUAE and the Higher Sharia Authority (HSA). Based on Sharia laws and principles, the latter regulates the Islamic finance institutions across the country. We also ensure that our Islamic governance, products, and services are aligned with the new regulations and approved by a team of qualified Internal Sharia Supervision Committee members (ISSC).

This, in addition to extensive Islamic training for all frontline and operations staff, assures customers of the authenticity of our products and services, which supports the growth of our Islamic customer base. Backed by a strong focus on digitisation, we are committed to speeding up and simplifying Islamic documentation by working closely with our Sharia advisors.

Performance

RAKIslamic revenue improved by 9% to AED 411 million compared to AED 376 million last year. This was driven by an 11% increase in net profit income to AED 351 million, achieved from the growth in customer financing and higher margins.

Impairment (net of recovery) declined by 67% year on year to AED 89 million reflecting an overall improvement in economic conditions.

2022 highlights

Some of RAKIslamic's highlights for the 2022 financial year are:

- Regular contributions to RAKAutism, a RAK-based charity dealing with autistic children, as well as to the world-renowned charity "Al Jalila Foundation".
- Islamic Banking's Learning Academy, RAKIslamic Hikmah, ran training across the Bank to build Sharia knowledge to ensure compliance with Sharia principles. This programme was accessed by all frontline departments, mid and C- Level management, and Board members.
- Launch of Sharia Compliant Elite proposition to meet growing demand from HNW for Sharia-complaint products.

Other milestones:

We launched our Sharia-approved, fully digitised account opening, BBG Assets on-boarding and most of our products and services offerings now align with RAKBANK's product and services suite. RAKIslamic will continue to re-engineer the product suite to meet changing customer needs.

2022 was an unprecedented and extraordinary year for RAKIslamic as we delivered a record-breaking performance across all matrixes, extending a huge increase in net profit with a total of AED 206 million, marking an exponential (>2026%) YOY rise as compared to 2021.

We have made good progress on our 2022 commitments both financially and strategically. We launched our Sharia-approved, fully digitised account opening and BBG Assets on-boarding which, along with most of our products and services, aligns with RAKBANK's digital product and services suite.

Total Customer Assets – Business Banking (AED billion)	Dec '18	Dec '19	Dec '20	Dec '21	Dec '22
Trade and Working Capital: 5%	2.7	2.5	1.9	2.2	2.7
RAK Business Loan: 7%	4.4	4.1	3.4	3.1	3.4
Asset Based Finance: 1%	0.5	0.5	0.3	0.3	0.4
FIGP: 5%	2.4	2.7	2.6	2.5	2.5

Numbers may not add up due to rounding.

RAKINSURANCE

Overview

As part of its customer-centric approach, RAKINSURANCE has focused on enhancing its digital footprint during the 2022 financial year. This has both strengthened its distribution channel initiatives and improved its customer experience.

Performance

RAKINSURANCE product development has been a key focus, especially in the Life and Medical segments. Following feedback from our distribution partners and customers, RAKINSURANCE continued to diversify and enhance its product offerings. During the year, RAKINSURANCE launched 3 new health insurance products, viz., the Golden Visa, Retiree Visa, and Family Care. These products have been developed and distributed to support the UAE Government's initiatives in the recently announced new regulations for long-term visa holders.

RAKINSURANCE prides itself in rolling out customised products for the global international travellers with competitive terms. Post-pandemic, international travel surged, both regionally and globally. A substantial increase in the demand for suitable travel insurance coverage for, among others, treatment for COVID-19 and medical evacuation. RAKINSURANCE also developed travel insurance for the FIFA World Cup 2022 that was exclusively distributed by RAKBANK.

Some of the products that have been launched via RAKBANK distribution are the Life Protection Plan, Ladies' Wellness Plan (providing coverage for various types of female cancers) and Critical Illness Plan. These offer life and health protection to both individuals and families.

SUSTAINABILITY REVIEW

OUR SUSTAINABILITY MANAGEMENT APPROACH

In recent years, the financial markets have begun adopting sustainability practices with increasing enthusiasm. There is growing evidence that, across sectors, sustainability-focused institutions consistently outperform their market peers. RAKBANK believes long-term financial growth requires a thorough integration of sustainability with its core business strategy. RAKBANK is on a journey to include strategic sustainability into its core business values and improve how the Bank manages and communicates performance and progress around the issues that are material in its operations.

RAKBANK is working to enhance its ESG disclosures and demonstrate the positive correlation between solid ESG and financial performance. We are driving transparency around assessment and reporting of non-financial metrics and sound ESG management practices. This report presents the most relevant KPIs, highlights priority value creation areas for all stakeholders, and serves as a baseline for the Bank to continuously improve its ESG performance. Our non-financial reporting disclosures are aligned with international standards such as GRI and SASB, in combination with ADX ESG reporting guidelines. These standards provide guidance for identifying material issues and managing these going forward.

A new sustainability management strategy

Because of our commitment to ESG, in 2022 the Board approved a strategy to guide ESG in the Bank. It is steered by the materiality assessment conducted in 2021 as well as the international imperatives of United Nations' Sustainable Development Goals and the Global Reporting Initiative.

RAKBANK's Sustainability framework, based on 3 pillars, focuses on 6 areas:

Pillar	Focus Areas
Environmental	Preservation of natural resources
Social	Developing our workforce Simply better customer experience Community support
Governance	A bank to trust Growing with intention

All the ESG initiatives that RAKBANK implements take into consideration:

- Our business strategy, especially with regards to responsible lending and ethical employment. We offer preferential terms for SMEs and start-ups, but also search for ways to enhance the infrastructure and ecosystem in which they operate.
- We offer products and services that reduce the collective carbon footprint at preferred rates.
- Our commitment towards the community and the UAE's regenerative development agenda.
- The Central Bank of the UAE's Consumer Education and Awareness Protection Framework.
- The results of our employee engagement survey, which includes feedback on training, career growth and development.
- Market trends and gaps.

Vision 2031

RAKBANK researched a number of national, international and sector specific guidelines to identify topics material to the banking sector, relevant stakeholders and the business. This process ensures that the report discloses relevant data to its audience and will enable the Bank to annually build and report on its sustainable successes. With this in mind, RAKBANK supports “We the UAE 2031” vision.

MSCI ESG ratings

During 2022, MSCI assessed how well RAKBANK is managing key ESG risks. An MSCI ESG rating measures a company’s resilience to long-term, industry-material ESG risks and uses a rules-based methodology to assess how well companies manage those risks in relation to their peers. The ratings range from leader (AAA, AA), average (A, BBB, BB) to laggard (B, CCC).

RAKBANK’s MSCI rating for 2022

BBB



Looking ahead: Our commitments for 2023

Bearing in mind that our ESG plan is a work in progress, and builds on some of the work already begun, our main focus for 2023 we will be on developing a sustainable finance framework and flowing from that, a sustainable product framework.

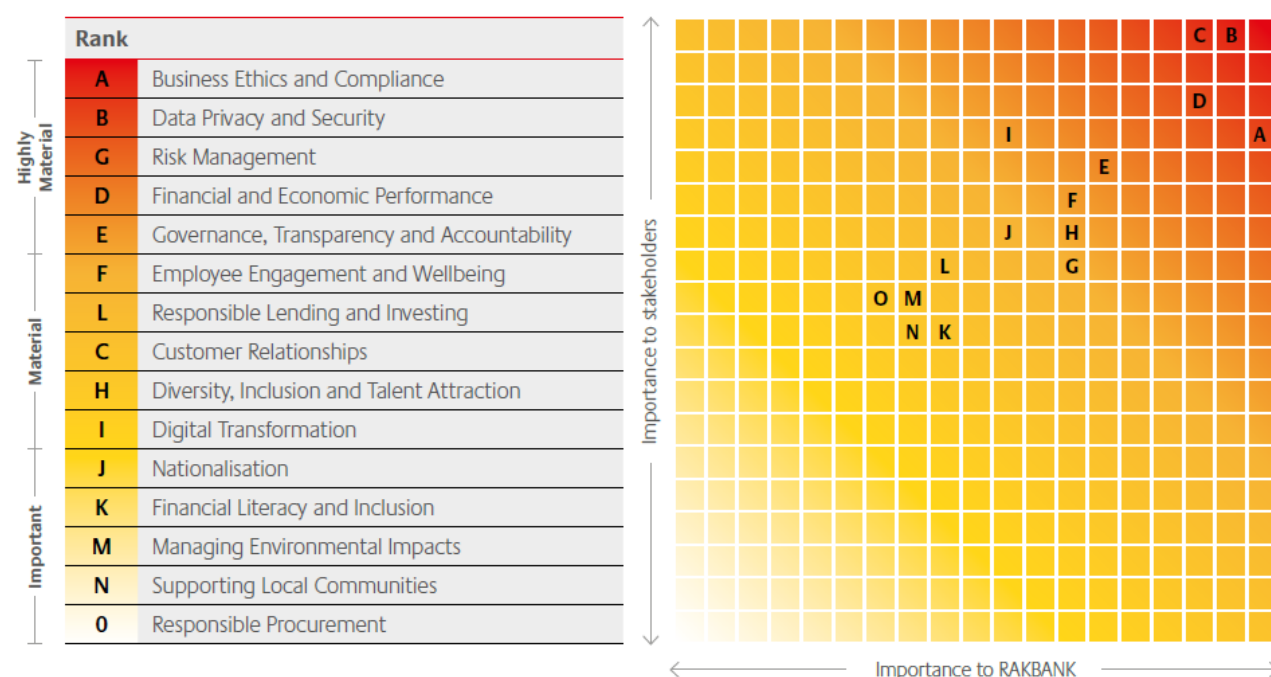
OUR MATERIALITY

RAKBANK's framework and key stakeholder groups are a long-term focus for the organisation, but relevant ESG considerations can change according to the evolution of both internal business needs and the external environment. Key themes and focus points for 2022, were:

- Growing our people: attracting and retaining talent.
- Focusing on the non-financial key performance indicators as well as the financial KPIs.
- Maintaining our edge while growing and diversifying.
- Being more focused on ESG.

We conducted a materiality assessment in 2021 to review material issues relevant to RAKBANK and rank these according to framework and stakeholder needs. The materiality assessment included an analysis of emerging local and global ESG trends, in light of sector issues and developments, and referred to several sustainability guidelines. The needs and expectations of our key stakeholder groups informed the material issues through a quantitative assessment, as shown in the following graphic.

In 2022, we reviewed and ranked our material matters as follows:



Material Issue	How RAKBANK is Responding	2022 Reporting Disclosures
Business Ethics and Compliance	- Ensuring high standards of business ethics and regulatory compliance. - Working to protect the Bank's reputation and achieving business goals legitimately. - Promoting organisational behaviour that RAKBANK and its stakeholders can be proud of.	Business Ethics and Compliance, page 77
Data Privacy and Security	Safeguarding customer assets, including personal data.	Data Privacy and Security, page 77

	Ensuring that data privacy and security is constantly assessed across the business and improved wherever and whenever possible.	
Customer Relationships	- Recognising that RAKBANK's customers are imperative stakeholders who form a core part of the Bank's journey towards 'Simply Better' banking solutions across the UAE. - Offering convenient access to innovative and competitive financial products across multiple channels to individuals and businesses.	Customer Service, page 49
Financial and Economic Performance	- Achieving continual, stable financial growth and attracting investment by continuing to diversify sources of income while maintaining low costs and high operating efficiency. - Ensuring adequate capital reserves to absorb losses, continue operations, and meet obligations in the event of adverse operating conditions.	Group Performance, page 21
Governance, Transparency and Accountability	- Conducting business with transparency, accountability and integrity by maintaining the highest standards of corporate governance. - Upholding corporate governance structures, principles, policies and practices, which helps meet RAKBANK's responsibilities to stakeholders and protect the business.	Corporate Governance, page 62
Employee Engagement and Wellbeing	- Promoting and supporting the optimal wellbeing of employees - Helping employees to create value as much for themselves as for RAKBANK and its stakeholders.	Employee Engagement and Wellbeing, page 46
Risk Management	- Protecting assets and customers via risk reduction and risk management. - Addressing urgent challenges.	Risk Management, page 79
Diversity, Inclusion and Talent Attraction	- Building an exceptional workforce through attracting, developing, and retaining the most talented individuals. - Inspiring people to achieve their full potential and deliver against the strategic objectives. - Committing to increasing the Emiratisation rate.	Diversity, Inclusion and Talent Attraction, page 43
Digital Transformation	- Enhancing end-to-end digital services across multiple business segments. - Easing customer interaction with the Bank and creating new digital first solutions across product lines.	Digital Transformation and Innovation, page 25
Nationalisation	- Supporting the national Vision to develop the local workforce. - Working to improve the Emirati experience and to attract local talent.	Nationalisation, page 47

Financial Literacy and Inclusion	Investing in initiatives aimed at enhancing people's wellbeing, by engaging responsibly with local suppliers, and promoting financial literacy to enable customers to make informed financial decisions.	Financial Literacy and Inclusion, page 56
Responsible Lending and Investing	- Establishing responsible investment/lending policies and management procedures. - Actively developing a capacity for ESG analysis to assist investment and lending decisions.	Corporate Governance, page 62
Managing Environmental Impacts	- Supporting national and international efforts to preserve natural resources in RAKBANK's areas of influence. - Assessing and disclosing resource use so that the Group can continue to reduce its impact in meaningful, measured ways.	Preservation of Natural Resources, page 60
Supporting Local Communities	- Recognising that commitments to Emirati society should extend beyond providing quality banking services and should fulfil a role as a supporting pillar to the collective efforts to make the UAE and the world a better place for tomorrow. - Staying focused on Corporate Social Responsibility (CSR) commitments.	Community Support, page 55
Responsible Procurement	Addressing responsible procurement throughout the supply chain, as it is affected by both who is chosen to engage in business and from where, and how those parties manage their own impacts.	Responsible Procurement, page 83

DEVELOPING OUR WORKFORCE

RAKBANK's working culture and ethics are fundamentally linked with the Bank's core values of action, service, responsibility, integrity and accountability.

Action	Action emphasises the importance of getting things done, which requires prompt decision-making.
Service	Service is the value that differentiates RAKBANK from its competitors. We continuously seek to understand our customers better so that we may offer them the best service.
Responsibility	It is our social responsibility to give back to the community through investment, job creation and environmental preservation.
Integrity	Integrity is important to RAKBANK. We acknowledge that trust must be gained through honesty and competency.
Accountability	We recognise that we are ultimately accountable to our stakeholders. We therefore maintain an unrelenting focus on maximising long-term benefits and relationships for our stakeholders.

Diversity, Inclusion and Talent Attraction

In 2022, our human capital approach involved hiring the best, fostering continuous personal growth and enriching the overall work experience.

We view employees as people with feelings, goals and ambitions both at work and outside the office. As the Human Resources role continues to evolve, new job titles could reflect leaders who are not gatekeepers or enforcers of rules, but rather partners in creating a company culture that is built on the shared values of the organisation and its workers.

Our Employee Value Proposition (EVP) will have specific focus on attracting, developing, rewarding, and retaining talent.

Workforce Overview*	2018	2019	2020	2021	2022
Total workforce (excluding trainees, students)	4,374	4,109	3,417	3,508	3,256
Full-time employees	4,335	4,085	3,395	3,488	3,232
Part-time employees	39	24	22	20	24
Senior Management employees	27	27	24	26	15
Middle Management employees	1,313	1,317	1,162	1,238	1,214
Non-Management employees (staff)	3,034	2,765	2,231	2,244	2,027
Trainees and sponsored students (includes only local sponsored students)	68	42	25	19	3
Number of nationalities	62	64	61	67	60

*Includes RAKINSURANCE data

*The above numbers are in line with BRF reporting to the Central Bank of the UAE

Workforce by Age and Gender	2018	2019	2020	2021	2022
Employees age 18-30	1,253	1,015	658	541	495
Employees age 31-50	3,019	2,994	2,663	2,851	2,630
Employees age 51+	102	100	96	116	131
Male employees	2,762	2,603	2,073	2,153	1,948
Female employees	1,612	1,505	1,344	1,355	1,308
Female employees in middle Management	371	425	386	402	430

Female employees in senior Management	1	3	2	3	2
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RAKBANK continues to offer exciting growth opportunities for all its staff, especially for female employees.

New Hires and Turnover*	2018	2019	2020	2021	2022
Total new employee hires:	644	705	280	574	758
Total new employees by age:					
Age 18-30	350	317	126	164	293
Age 31-50	289	384	149	400	455
Age 51+	5	4	5	10	10
Total new employees by gender:					
Male	393	457	150	394	289
Female	251	248	130	180	469
Employee turnover (voluntary and involuntary):	1,083	981	957	497	802
Age 18-30	335	332	258	139	140
Age 31-50	726	628	668	353	629
Age 51+	22	21	31	5	33
Male	714	625	663	316	559
Female	369	356	294	181	243
Senior Management	1	2	4	1	5
Middle Management	236	253	222	132	212
Non-Management employees	846	726	731	364	585
Employee turnover (voluntary and involuntary) (%)	25%	25%	27%	15%	24%
Employee turnover (voluntary)	719	650	368	428	607
Age 18-30	239	245	130	131	1236
Age 31-50	475	402	231	294	475
Age 51+	5	3	7	3	9
Male	421	398	221	259	404
Female	298	252	147	169	203
Senior Management	0	1	1	1	1
Middle Management	169	178	67	107	171
Non-Management employees	550	471	300	320	435
Employee turnover (voluntary) (%) (Total voluntary separations during the year/average annual headcount)	16%	16%	10%	13%	18%
Employee turnover (voluntary) (%) (Total voluntary separations during the year/total separations during the year)	66%	66%	38%	86%	76%

*Excludes RAKINSURANCE data

We are pleased to report a steady improvement in our gender diversity metrics across the Bank.

	Q3 2019	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	YoY
Female Senior Managers	15%	15%	14%	16%	16%	16%	18%	18%	18%	21%	21%	20%	2%

% of total senior staff													
Number of Nationalities	49	51	47	50	48	46	46	49	52	57	56	56	14 %
Emiratization ratio % (number of Emiratis / total staff)	14%	15%	16%	18%	17%	17%	17%	16%	16%	15 %	15 %	19%	3%

Gender Pay Ratio*	2020	2021	2022
Median male compensation to median female compensation	0.9:1	0.9:1	0.9:1

*Excludes RAKINSURANCE data

Training and Development

The table below provides a breakdown of RAKBANK's training and development:

Training and Development	2018	2019	2020	2021	2022
Total training delivered (hours)	67,359	85,092	42,592	22,688	58,480
Senior Management employees	148	124	84	60	136
Middle Management employees	21,812	38,922	23,508	9,534	16,247
Non-Management employees	45,399	46,046	19,000	13,094	33,022
Male employees	34,403	41,241	18,354	11,725	29,309
Female employees	32,956	43,851	24,238	10,962	20,096
Average training per employee (hours)	15.3	24.3	11.9	7.02	15
Senior Management employees (Total training hours delivered to senior Management employees in a year/average annual senior Management headcount)	8.5	6.1	4.5	3.8	9.8
Middle Management employees (Total training hours delivered to middle Management employees in a year/average annual middle Management headcount)	16.4	31.4	19.3	8.3	15.7
Non-Management employees (Total training hours delivered to non-Management employees in a year/average annual non-Management headcount)	14.8	17.4	8.1	6.3	18.3
Male employees (Total training hours delivered to male employees in a year/average annual male employee headcount)	12.2	16.3	8.2	5.9	17.5
Female employees (Total training hours delivered to female employees in a year/average annual female employee headcount)	20.6	30.5	18.1	8.8	17.1

In 2023, RAKBANK will tap into LinkedIn Learning to identify and recommend learning paths that address specific employee competency and skill gaps.

We introduced weekly "Agile, Innovate & Motivate (AIM)" huddles in 2022, which helps employees collaborate and support each other, while advancing RAKBANK's employee work culture of greater efficiency and effectiveness.

Talent

An important aspect of achieving the 5-year strategy is building the future leaders who will move the organisation forward demonstrating skills of future, today. The Talent strategy launched in 2022 aims to support the organisation as it moves through various stages in building and delivering growth strategies to deal with changing business environments – economical, people, financial, technical, regulatory. The strategy focuses on facilitating a systematic approach to identify and cultivate business leaders for long-term growth, building the talent bench strength, a better handle on workforce typography and emergency preparedness for business continuity. Talent reviews for 300+ senior colleagues have been conducted to date of which 28% have been identified as top talent in the Bank.

In 2023, the aim is to design a unique learning journey for the top talent that includes building breadth and depth of functional/technical knowledge, and provide relevant learning experiences.

Sustainability and Employee Councils: good corporate citizenship

The results of the employee engagement survey also showed a great sense of social and environmental responsibility and interest in driving sustainability among our staff. Consequently, and in order for them to contribute to our Bank's efforts in promoting an environmental and social culture as well as to allow our colleagues to voice their preferences, we established a series of councils to drive the journey.

Sustainability Council

The Sustainability Council's role is to lead the CSR initiatives of the Bank and oversee the implementation of the annual ESG and CSR calendar. This will include a drive for volunteers to lead our response to COP27 measures to reduce the impact of climate change.

Sports and Wellbeing Councils

Research has shown that a greater sense of wellbeing relates to increased physical and mental benefits, which increases productivity and creativeness in both work and personal lives. Consequently, during 2023 along with a Wellbeing Council, we will establish a Sports Council that will promote sporting activities, competitive games and organise an annual employee sports day.

Employee Engagement and Wellbeing

An engaged workforce is a sustainable workforce, which is why our sustainability strategy places such a strong emphasis on employee engagement and wellbeing. In addition to the work of our employee councils, we aim to provide opportunities for learning and development in a safe and fulfilling work environment, supported by a robust anti-discrimination policy.

An on-site influenza vaccination campaign took place in November 2022, with 327 employees successfully vaccinated.

Caring for families

To support employees in their family life, RAKBANK is proud to maintain a high return-to-work rate for employees taking maternity leave.

Parental Leave*	2018	2019	2020	2021	2022
Number of female employees that took parental leave	103	116	89	87	55
Number of female employees who returned to work after parental leave ended (return to work)	99	108	83	86	51
Return to work rate (%)	96%	93%	93%	N/A	93%

**Includes RAKINSURANCE data*

Employee grievances

The Bank has a rigorous grievance mechanism and process that ensures that employee complaints are efficiently and fairly addressed without subjecting them to embarrassment.

HR investigates any employee complaint and endeavours to resolve the matter before it escalates to an official grievance.

Emiratisation

In 2022, the Central Bank of the UAE (CBUAE) revised the Nationalisation Strategy for the banking sector. As part of this new strategy, CBUAE shared a new allocated target for 5 years from 2022-2026 that is segregated into operational target points and recruitment target points. While the operational target is based on representation of Emiratis at various hierarchy levels, their training and development and senior leadership commitment to Emiratisation, the recruitment target mandates RAKBANK to hire and retain an additional 60 UAE Nationals annually until 2026. RAKBANK is committed to the UAE Nationalisation points system to ensure that local talent has equal opportunities for entering the workforce and, critically, that they are supported to develop in their roles.

Nationalisation	2018	2019	2020	2021	2022
Total Emiratisation points *	994	1,284.3	- Operational Emiratisation points: 1273.5 - RAKINSURANCE Emiratisation points: 54 - Retention points: 228	N/A	- Operational Emiratisation points: 1245 - Recruitment points: 201
Total number of national employees **	537	571	583	551	604
Number of female national employees	474	504	515	489	534
Number of male national employees	63	67	68	62	70

** In 2020, the Bank was given 2 separate targets for Emiratisation – 'Operational Emiratisation Target Points' and 'Retention Target'. While the calculation basis of 'Operational Target Points' is the same as 2019, 'Retention Target Points' is achieved if the number of Emiratis working for the Bank as at 31 December 2020 is the same as 31 December 2019.*

***National employees with family book*

The breakdown of the Group's workforce is displayed below:

Type	2018	2019	2020	2021	2022
Emirati headcount	537	571	583	551	604
Expat headcount	3,837	3,538	2,834	2,957	2,652
Total headcount	4,374	4,109	3,417	3,508	3,256
% of total Emirati headcount	12%	14%	17%	16%	19%

Rewards and recognition

Spot recognition and experience-based recognition initiatives have already been implemented, and the 'Employee of the Month' campaign was launched in October 2022. We will report on these new initiatives in more detail in 2023. In addition, during this year, the minimum salary across the Bank was increased to AED 5,250 to support the rise in the cost of living and overall inflation in the UAE.

Looking ahead

A bank-wide employee recognition programme that includes monetary and non-monetary incentives is expected to go live in 2023. This will include a digital platform offering better visibility, peer-to-peer recognition and a points-based redemption system.

ENHANCING CUSTOMER EXPERIENCE

RAKBANK unifies its mission, vision, values, and goals around the importance of providing a “Simply Better” customer experience across all touchpoints. This integrates with our drive to be a digital bank with a human touch that is with our customers in their key moments of truth, which goes beyond just offering banking products and services.

We recognise our customers as valuable stakeholders who form a part of the core of the Bank’s journey towards customer obsession and excellence. RAKBANK is a member of the UAE Banking Federation (UBF) and adheres to the UBF stipulated Customer Charter for all member banks. The Bank supports the Customer Charter to promote trust and best practices across the financial services industry, providing customers with clear guidelines about the standard of service they can expect from their banks.

Our Customer Charter is available across our website and branches, and commits to always placing our customers’ needs first and focuses on creating long-lasting relationships through an all-encompassing Customer Service Charter.

Our promise to you: • Service Excellence • Accessibility • Security • Compliance • Sustainability	We’ll always deliver professional and timely service
	We’ll respond to any concern within 1 working day
	We’ll resolve your query within 4 working days
	If not satisfied, we’ll inform you of escalation options
	Help us serve you better by providing your valuable feedback

Our Approach towards Customer Excellence

RAKBANK’s key differentiator for becoming the Bank of Choice is the customer experience at every interaction or touchpoint for all customer segments, from individuals and SMEs to large corporates. Our Customer Excellence and Protection team (CXP) are proactive and responsive, featuring a strong culture of accountability. Taking great lengths to ensure 100% satisfaction, we leverage creativity, collaboration, and transparency to determine the best resolutions for our employees and customers.

Our CXP team diligently attends to customer engagement and feedback to ensure that RAKBANK’s products, services, and experiences create value for customers. Hearing and listening to our customers, is the department’s first priority, and at the heart of our team culture. By incorporating the voice of both our customers and employees in everything we do, we can respond to specific needs. The CXP specialists capture all customer feedback to identify:

Opportunities to standardise great performances	Areas for enhancements	The products and services that our customers want from RAKBANK
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We also engage with multiple partners, both national and international, to help us identify best practices, benchmarks, or certifications that can help improve our existing channels of communications, products, or services to customers across all segments. To balance customer experiences against our regulatory responsibilities, the Bank remains cognisant of regulatory factors, such as the Consumer Protection Framework.

Implementation of the Consumer Protection Regulation and associated standards

RAKBANK firmly believes that stringent consumer protection should be embedded in all our practices and has become a virtue for our customer experience. Ensuring that our customers can make well-informed decisions about how to access and use our products and financial services, leads to healthy banking relationships and building trust with the Bank.

Since the announcement of the regulation in 2021, we have used the Consumer Protection Framework (CPF) as an opportunity to enhance our processes, documentation, and overall customer experience. With that in mind, we achieved 90% compliance by December 2022, and we aim to reach 100% implementation by Q2 2023. The Bank has put a great deal of emphasis on implementing Consumer Protection Regulations and the accompanying standards.

RAKBANK's CPF and Complaints Monthly Committee (CMC) provides progress on our CPF implementation, an analysis and overview of all complaints received, and also identifies opportunities that require technological enhancements or changes to address these complaints/deliveries. Customer feedback and engagement activities are reported to the Board every month. The Consumer Protection implementation and progress is monitored on a monthly basis by an independent committee chaired by the CEO and the outcome is then shared with the Board Risk Committee.

Key achievements in 2022

- Ensuring that disclosure and transparency requirements are embedded in all financial products and/or services, across all channels. This includes bilingual customer communication across our business interactions. The CXP team is now working on a complete content refresh, reviewing and updating information at each stage of the customer journeys to ensure accurate and simplified useful communication with our customers.
- Creating various policies and trainings, including the "Code of Fair Treatment" which sets out the principles that underpin our business. At all times, we conduct our business and customer relationships with integrity and in a fair, honest, competent, and transparent manner, and monitor performance to ensure alignment to our policies and code of treatments.

- Establishing RAKBANK's first Debt Counselling team. We have trained our employees with the necessary skillsets to guide our customers with their financial requirements. These include, for example, helping them track their spending, stay on track with payments, improve their credit scores, or encouraging them to save, which will stand them in good stead in times of need. We have assisted over 576 customers under Debt Counselling from when we established the team in June 2022 to December 2022.
- Building our customer relationships so that they go beyond banking. To do this, we have established a Customer Education and Awareness function that will help establish the calendar and framework to educate our customers on a range of topics including financial literacy, which includes measurement of effectiveness of our calendar.
- Expanding our "We Care" initiative that caters to our People of Determination customers. They now have priority queues at 5 of our branches, with 4 more planned. We have trained 50 of our customer-facing team members across branches, sales, and wealth management in sign language. In addition, we have implemented accessibility widgets on our website to offer 7 different support functionalities to customers with these special needs.
- RAKBANK's Branches and Contact Centre teams were re-certified with ISO 9001:2015v Quality Management System certification. Branches and Contact Centre teams went through 2 rounds of extensive audits (pre-audit and annual surveillance audits) during 2022, following which we have received the re-certification for 2023.

Third - Top Ranked Brand - Dubai Service Excellence Scheme Mystery Shopping for Contact Centre in Q3 2022

We continue our partnership with the Department of Economic Development and the Bank has participated in the Dubai Service Excellence Scheme (DSES) accreditation scheme since 2016. This scheme binds all participating businesses to a common code of business and core criteria for customer excellence. RAKBANK's Branch and Contact Centre channels continue to perform above the required standards. We are proud that for 2 consecutive quarters in 2022 (Q2'22 and Q3'22), the RAKBANK Contact Centre team achieved 100%. As a result, our Contact Centre was placed third among the "Overall" Top Performing Brands for the e-services sector in Q3 2022.

RAKBANK is also undergoing a robust improvement with its main Customer Satisfaction score and Net Promoter Score (NPS) among both Personal and Business Banking customers.

Customer Satisfaction Scores in %	2019	2020	2021	2022
Business Banking Score	85%	87%	84%	87%
Personal Banking Score	85%	88%	87%	88%
Overall Customer Satisfaction Score*	85.8%	85.2%	86.6%	87.0%
Net Promoter Score	2019	2020	2021	2022
Business Banking Score	43	48	46	47
Personal Banking Score	46	55	54	55

* The overall Customer Satisfaction score is based on completed surveys that were conducted across all channels

Acting on customer feedback

Customer feedback is central to enhancing not only our product offering but also the level of service to all our customers. In 2022, not only did we make it easier for customers to provide feedback, but we also took steps to improve feedback channels and the value of the information we collect.

Customer satisfaction

	Q3 2019	Q2 2020	Q3 2020	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	YoY
Overall Customer Satisfaction Score (%)	86%	85%	93%	94%	96%	89%	90%	86%	88%	87%	87%	91%	0%
Net Promoter Score	44	82	83	87	86	64	50	45	49	51	48	56	- 0.02

RAKBANK's Branch Happiness Meter available as a QR code in branch and on the website

The Happiness Meter in branches has been revamped to include clear communication, both in-branch and electronically. In the past, RAKBANK customers used tablet stands or QR codes to provide their feedback during their visits to branches. We introduced a centralised QR code customer e-feedback channel so that customers can provide feedback easily and at their own convenience. We added a "Happiness Question" – a low happiness score triggers a call back to the customer within 2 hours to find out more and resolve any issues.

We also added a section on our website where customers can share their feedback with us at their own convenience. All feedback shared across both channels is taken on as a priority where customers are contacted, if needed, and feedback is escalated for improvements and resolution, wherever necessary.

Handling Customer Complaints

RAKBANK takes all customer feedback and concern as an opportunity to improve. In compliance with the Consumer Protection Framework, a new Complaints Mailbox has been set for customers to raise their grievances. Dedicated helpdesk and retention teams manage complaints, AECB queries, social media complaints and others.

We ensure that we contact, listen to, and resolve customer concerns with priority and care. Our independent Complaints Handling team are trained to ensure that every complaint, once resolved, is concluded with a root cause analysis to ensure permanent fixes and non-recurrence. In 2022 the introduction of the Complaints Mailbox, saw an increase in the number of complaints – but the complaints related to Bank errors have decreased by 10%. Regular intervention sessions and deep dives resulted in concluding over 46 initiatives across our SMS, Digital Banking, and IVR channels. The most complaints (or requests) resolved were related to credit card customers who want to proactively know the minimum amount they need to pay to avoid interest, and we have introduced that across our Digital Banking, SMS, and Contact Centre channels.

	2019	2020	2021	2022
Number of Complaints Received	19,115	15,818	9,766	8,862
Overall Complaints Resolved	19,055	15,915	9,770	8,734
Average Complaints Handling TAT (days)	5.8	5.4	5.3	6.05

*Number of complaints received and resolved may not match due to roll-over cases from previous year.

Customer education and awareness initiatives

Business Banking Newsletters	Quarterly news on Business Banking initiatives and launches are plugged into a newsletter that is shared with customers on a quarterly basis. There is even a section in the newsletter titled 'Customer Notice' and it covers elements like fraud trends, VAT regulatory etc.
Personal Banking emailer Campaign	Periodic emailers are scheduled and sent to all active customers to inform them on ways to remain aware and how to protect themselves in a digital environment.
UAE Banks Federation (UBF) Awareness Campaign	Periodic emails such as UBF Phone Fraud, UBF Fraud Awareness, UBF Email Fraud, UBF Social Fraud and many more are sent monthly to active customers to update them on fraud patterns & provide them with tips towards protecting themselves from fraudulent activities. A total of 4,146,559 emails were sent in 2022.
ESG Workshop	The Wealth Management team organised a workshop on ESG/Responsible Investing for their High Net Worth (HNW) customers. The workshop emphasised the increased incentives and business opportunities with regards to building a portfolio around Responsible Investing.
Whistle-blower Page on Website	The Internal Audit team published the process through which a whistle-blower can file a complaint on RAKBANK's website, along with the Bank's official Code of Conduct for reference.
ATM Campaign	The E-Channels team developed screensavers that were displayed across all ATMs for a period of time to raise consumer awareness on Fraud Protection and how to bank safely.

COMMUNITY SUPPORT

Supporting SME Growth

RAKBANK aims to be the go-to partner for SMEs of all sizes and offers an evolving product base to support the unique requirements of start-ups and entrepreneurs. Among our diverse product base is RAKstarter, Quick Apply and SMEsouk which aim to support SMEs, from day one, and help them to achieve their ambitions. The Bank has also enhanced its Quick Apply portal for digital loan applications on the SMEsouk platform and continues to work towards ongoing improvements to elevate customer experience.

RAKstarter's main features:	Quick Apply's main features:
Accounts available in UAE Dirham (AED), US Dollar, Euro and Pound Sterling (GBP) currencies. Attractive interest rates. No ledger/fall-back fee. Access to an array of business financing products including a cloud-based accounting package, business insurance and other banking benefits specifically targeted to entrepreneurs. Unlimited cheque book facility. Attractive foreign exchange and trade finance rates. Competitive interest rate on fixed deposits. Dedicated Relationship Manager. 24-hour phone banking services.	Offers instant access to business accounts for every business stage. Available in both conventional and Islamic options. Start-ups and entrepreneurs can access zero-balance accounts, free remittances and preferential forex rates, a free accounting package and business insurance. Growing businesses receive access to low balance accounts, preferential transaction fees, and a dedicated Relationship Manager. Established businesses can access the following services via Quick Apply: Select free services Lifestyle benefits Priority servicing A dedicated Relationship Manager

Partnering on SME financing options:

Apart from our existing partnership with Emirates Development Bank, Dubai SME and others, we have also collaborated with Tradeling, a B2B marketplace for MENA businesses. The partnership with Tradeling offers RAKBANK Business cardholders access to preferential buying terms across all categories on their website, Tradeling.com. It results in a smooth process for the Bank's SME customers whereby they can streamline their procurement process, maximise their earning potential, and benefit from competitive prices. Tradeling's platform further leverages advanced technology to optimise the supply chain processes, creates economic value as well as mitigates risks for small businesses. It is in line with RAKBANK's strategy of building the necessary ecosystem and infrastructure for SMEs to develop sustainably.

Strategic Partnerships:

We are in the final leg of discussions with leading names to enhance our fintech experience. These are expected to go live in H1 2023. Such collaborations / partnerships will now be a key facilitator for RAKBANK to further its reach and penetration into the SME market.

SME education and training

We host free learning webinars as part of our SMEsouk initiative to support our SME customers with information that helps them grow their businesses. In 2022, we organised the following:

- Hosted a webinar on “Corporate Tax” in collaboration with Deloitte Middle East & MI CAPITAL.
- Hosted a webinar on “Business Insurance” in collaboration with RAKINSURANCE and MetLife.

Financial Literacy and Inclusion

In its journey to provide a better customer service, RAKBANK offers more than just products. The Bank has developed a suite of offerings that supports customers in many different ways, irrespective of their economic standing and experience.

C3Pay card

RAKBANK partners with C3, a Prepaid Card service provider that is part of the Edenred Group – a world leader in prepaid corporate services - in order to provide immediate and secure salary transfers to blue-collared workers. This enables RAKBANK to offer payroll solutions for both banked and unbanked employees and companies, thus promoting financial inclusion and opening up new markets for the Bank. The Edenred card is more than just a product offering, it is a core value of RAKBANK to extend banking services across the country and reduce cash vulnerability to all tranches of the society.

RAKBANK is implementing its C3Pay salary cards across the UAE. The main objective of the card is to extend support to blue-collared workers who typically do not have access to banking due to the banking industry’s acceptable salary level thresholds. This product allows workers to access RAKBANK’s RAKMoneyTransfer service to transfer their money to family members in other countries such as India, Philippines, Pakistan, Nepal, and Sri Lanka through the C3Pay app, without having to handle or physically move cash. Minimal charges are applied, which are competitive compared with foreign exchange houses, while offering the security of a reputable bank to manage precious personal finances.

During 2021, RAKBANK also rolled out a loyalty initiative along with Edenred to support blue-collared workers when remitting money abroad through special and unique offers. For example, 4 successful remittances over AED 500 via RAKBANK’s RMT service qualified for a fifth transfer that is free of charge.

C3Pay card

The C3Pay card, which was previously known as MyC3 card, is a solution that provides large firms an alternative to payroll cheques or direct deposit. The C3Pay card acts as a salary card that can be used for withdrawals and purchases across the country, providing better financial security than carrying cash.

Accessible platforms to develop financial literacy

Community development is a significant concern of sustainable development across all sectors. RAKBANK supports the prosperity of the communities where it operates by investing in initiatives aimed at enhancing people's wellbeing, by engaging responsibly with local suppliers, and promoting financial literacy to enable customers to make informed financial decisions.

Financial literacy is an essential part of ensuring that community members can access the banking products they require in a safe and meaningful way. Engaging and educating all members of society is a focus for RAKBANK as part of its community support commitments.

In addition to the products and services mentioned, the Bank has developed several accessible platforms to develop financial literacy, such as:

ThinkMoney	An advice platform addressing productive saving and spending habits, to help customers set financial goals and access professional tips on how to manage finances. ThinkMoney takes the often complex financial terminology used by banks and financial institutions and presents it in an accessible and detailed glossary. With an aim to fully equip people with basic money management skills, ThinkMoney also helps generate a detailed understanding of the financial planning process.
Economic Outlook	Periodic investment intelligence publications to update clients on current investment market conditions, asset class performance and investment outlooks.
UAE & U	A blog for customers serving as a knowledge sharing platform.

Community Driven Products

RAKBANK is keen to offer a diverse product portfolio to support its wide customer base. In addition to SME offerings, the Bank has a range of products to suit a range of different needs and preferences. It also aims to improve financial literacy for customers through knowledge sharing and reducing cash vulnerability wherever possible.

RAKislamic	RAKMoneYTransfer	C3Pay card
RAKislamic has been designed to customise RAKBANK's services and products to fit Islamic Sharia principles wherever feasible on a personal or business basis. This service is structured in accordance with the Central Bank of the UAE's regulations and is supervised by an independent Fatwa and Sharia Supervisory Board (FSSB).	RAKMoneYTransfer is a transfer service offering instant remittances within 60 seconds to multiple counties through different corridors. This service is in partnership with Ripple to enable money transfers through blockchain with partner banks in the stipulated areas. It aims to improve access to banking services and reduce cash vulnerability.	In addition to RAKMoneYTransfer, the C3Pay card offers users flexibility with their finances. It is designed to support financial inclusion for the unbanked section of the society. This product allows workers to subscribe to the service with a bank card, then transfer their money to where they need, such as India or Bangladesh.

Supporting Local Communities

RAKBANK remains committed to Corporate Social Responsibility (CSR) - an essential element in its growth and the development of the UAE. RAKBANK realises that its commitments to society should extend beyond providing quality banking services and should fulfil its role as a supporting pillar to make the UAE and the world a better place for the future.

During 2021, the Bank developed a CSR policy that focuses on benefiting the community and environment in which it operates, in line with SCA requirements. The policy covers the Bank's 3 key pillars: Economic, Environmental, and Social. This comprehensive approach towards RAKBANK's social responsibility has led to a plethora of different programmes and initiatives that include charity, sporting events, environmental and sustainability initiatives, awareness campaigns, empowering people of determination, and Emiratisation programmes. Our CSR efforts are being more closely aligned with our business strategy and we are leveraging our role in the banking sector by providing a conducive ecosystem that helps SMEs thrive, drives financial inclusion and increases financial literacy for individuals and businesses.

RAKBANK selects beneficiaries for CSR funding through the following process:

Identify CSR opportunities that are in line with the Bank's ESG framework and identity	Seek out organisations that help the Bank achieve its CSR vision	Audit the potential non-profit to make sure that it is a legitimate organisation, as per the UAE laws and regulations	On-board the selected beneficiary as a vendor with the Bank	Regularly monitor progress and impact
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Performance

Our community support highlights for the year include: Our ongoing support of the RAK Autism Centre has contributed to the education of 45 kids. Rak Autism Centre is a not-for-profit organisation serving children with autism spectrum disorder (ASD) in Ras Al Khaimah since 2006. Their mission is to improve the lives of children with ASD and their families by providing access to evidence-based treatment in a positive and supportive learning environment. Based on the scientific principles of Applied Behaviour Analysis (ABA), their programmes are individualised, effective, and lead to meaningful outcomes.

CSR 2022 spend

Community Investment and Volunteering	2020	2021	2022
Value of investment in local community (AED 000)	1,017	1,149	906
Number of beneficiaries of community activities	11	14	5

These figures are for Bank-wide CSR spending.

Future outlook

During 2022, we focused our efforts on introducing an ESG strategy that defined, amongst other things, a roadmap for the CSR initiatives that will be rolled out in 2023.

PRESERVATION OF NATURAL RESOURCES

Managing Environmental Impacts

Climate change is the driving force behind – and biggest challenge to – sustainability across all sectors of industry and society. The Bank takes the need to support national and international efforts to preserve natural resources very seriously, especially in those areas where it has influence. The first step is to focus on assessing and disclosing its resource use so that the Bank can continue to reduce its impact in meaningful and measurable ways.

By implementing significant structural and process changes over the past 3 years, we have seen substantial changes in resource use. For example, thanks to digitisation, the Bank is seeing a year on year drop in paper usage and is recycling most of its used paper.

We have an ongoing partnership with Shred-It, one of the largest document destruction providers in the world that offers compliance-based solutions to help protect people, brands and safeguards the environment. Currently, the Bank has a total of 79 Recycling Shred-It boxes across our premises in Dubai and Ras Al Khaimah. We recycle on average around 25,000 Kgs per quarter with over 30,000 Kgs of paper being recycled in Q3 alone. We are pleased to have recycled more paper in 2022 than the Bank consumed.

Materials Consumption and Waste

	Unit	2018	2019	2020	2021	2022
Total paper consumption	Kg	228,808	160,220.5	82,375	76,487.5	79,450
Total paper recycled	Kg	131,293	80,944	78,792	159,234	130,680

	Unit	2018	2019	2020	2021	2022
Indirect energy use	GJ	96,775	96,863	88,038	81,146	71,362
Electricity	kWh	26,881,879	26,906,412	24,454,915	22,540,459	19,822,691
Total workforce	Number	4,175	3,900	3,223	3,508	3256
Vehicle fuel consumption (Diesel)	Litre	0	9,835	0	0	0
Vehicle fuel consumption (Gasoline)	Litre	228,444	294,335	138,174	123,800	106,461

**Excludes RAKINSURANCE data, but total employee figure is as per Group data (inclusive of RAKINSURANCE).*

	Unit	2018	2019	2020	2021	2022
GHG emissions	CO2e (tonnes)	23,369.4	25,931.9	18,961.3	17,359.5	15,226.83
Emission intensity	CO2e (tonnes)/employee	5.6	6.7	5.9	4.9	4.7
Energy usage	GJ	96,775	96,863	88,038	81,146	71,362
Energy intensity	GJ/employee	23.2	24.8	27.3	23.1	21.9
Emission factors used for calculations						
	Electricity	0.000589	0.000589	0.000589	0.000589	0.000589
	Diesel	0.038	0.038	0.038	0.038	0.038

	Gasoline	0.033	0.033	0.033	0.033	0.033
GHG emission %		27%	30%	19%	17%	15%

**Excludes RAKINSURANCE data, but total employee figure is as per Group data (inclusive of RAKINSURANCE).*

Impact of Business Travel	Unit/Calculation	2018	2019	2020	2021	2022
Air travel (flight) emissions*	CO ₂ (Kg)	25,441	29,618	1,601	2,729	24,680

**This is calculated based off of international business travel*

Water Consumption	Unit/Calculation	2018	2019	2020	2021	2022
Total water consumption	Litre	61,383,752	61,508,158	55,664,894	51,235,478	48,407,000
Water consumption intensity	Litre/employee	14,033.8	14,969.1	16,290.6	14,605.3	14,867

** Excludes RAKINSURANCE data, but total employee figure is as per Group data (inclusive of RAKINSURANCE).*

RAKBANK's Green Loan Portfolio

The Bank's green loan portfolio mainly consists of green mortgages and auto loans. The mortgage loans are sourced from properties financed in Dubai Sustainable city with current book values at around AED 6.08 million. We financed 35 auto loans for Tesla motor vehicles, with the current book value at AED 3.35 million.

In our constant efforts to contribute and promote a sustainable environment, RAKBANK also signed an agreement with Ras Al Khaimah Municipality to launch green financing solutions.

The Municipality oversees the implementation of Ras Al Khaimah Energy Efficiency and Renewables Strategy 2040, driving sustainability as a source of competitive edge for the Emirate, reducing the cost of energy and water for businesses, residents, and the Government.

The agreement facilitates preferential financing options for green housing initiatives, green auto industry, as well as green personal financing solutions. Consequently, our Ras Al Khaimah based customers get instant access to green auto loans on the condition that they purchase an electric or hybrid vehicle from Ras Al Khaimah based dealers. Additional value-add include extremely competitive interest rates and exclusive discounts on insurance rates.

Supporting Barjeel – green building

RAKBANK has aligned its vision with that of the Ras Al Khaimah Government by supporting Barjeel, the green building regulations of the Emirate, the aim of which is to reduce the energy and water consumption of new buildings by 30%. We offer an exclusive green mortgage loan at a competitive interest rate to customers interested in buying Barjeel compliant homes and with the added benefits of residual financing options, free pre-approvals, attractive discounts on processing and valuation fees, as well as minimal paperwork.

In addition, our Ras Al Khaimah based customers can also access a green personal loan – also at exclusive rates – to finance various green initiatives, such as, solar panel installations as well as purchase energy efficient appliances, equipment and devices from licensed local vendors.

A BANK TO TRUST

Governance, Transparency and Accountability

GOVERNANCE

Governance is a cornerstone of sustainable business in the finance sector, and RAKBANK is always working to be a bank to trust. We conduct our business with transparency, accountability and integrity by maintaining the highest standards of corporate governance, and lead in instituting preventative measures to eliminate any form of bribery, corruption, and financial crime including money laundering, terrorism financing, and fraud.

A number of regulations were introduced between 2019 and 2021 relating to all aspects of Corporate Governance, with the most relevant being:

- The Corporate Governance Circular No. 83/2019 issued by the Central Bank of the UAE ("CBUAE").
- The decision of the Chairman of the Board of Directors of the Securities and Commodities Authority ("SCA") No. (03/R.M) of 2020 concerning the Approval of the Joint Stock Companies Governance Guide.
- The Federal Commercial Companies Law 32/2021 that offers guidance on matters related to Corporate Governance.

RAKBANK aspires to achieve the highest standards of ethical conduct, complete transparency and to comply with the laws, rules and regulations that govern the Bank's businesses. The Bank's overall Corporate Governance framework provides an overview of RAKBANK's governance structures, principles, policies and practices for meeting its responsibilities to stakeholders and protecting the business. The framework is overseen by the RAKBANK Board of Directors, and its provisions align with the Bank's regulators requirements: CBUAE, SCA and the RAK Department of Economic Development.

As a part of the Bank's overall Corporate Governance framework, RAKBANK has set a number of key Corporate Governance policies, which include, but are not limited to:

Disclosure and Transparency Policy that aims to ensure that the required information, other than the confidential business information is disclosed to the public, investors, employees, customers, creditors and other relevant parties in a fair, timely, accurate, complete, understandable, convenient, and affordable manner.

Policy on Related Party Transactions which is designed to ensure that transactions with related parties are conducted on principles of transparency and integrity at arm's length, safeguarding the Bank and the Group's resources from being misappropriated or misapplied. The policy also aims to prevent persons and their relatives from benefiting from such transactions or having access to the process of granting and managing Related Party Transactions.

Share Dealing Policy which is designed to help Directors, officers and employees to comply with insider trading laws and to prevent even the appearance of improper insider trading.

Board Selection and Appointment Policy which incorporates gender diversity and sets the basis for a clear, fair and rigorous process for identifying and selecting all the candidates for the Board of Directors of the Bank.

Whistleblowing Policy which is designed as a control to help safeguard the integrity of RAKBANK's financial reporting, its business dealings and to support adherence to the Code of Conduct.

Code of Conduct and Ethics has been adopted with other internal policies and guidelines, consistent with the Bank's purpose and values, and to comply with the laws, rules and regulations that govern the Bank's business operations.

Board Remuneration Policy sets the basis for a clear, fair and rigorous process for identifying and selecting all the candidates for the Board of Directors of the Bank.

BOARD CODE OF CONDUCT

The Board of RAKBANK is responsible for providing adequate oversight of the Group, while respecting the legal independence of its subsidiaries. The Board seeks to ensure that the Bank's Internal Control framework takes into account the material risks to which the Group and its subsidiaries are exposed to and is working closely with its subsidiaries on establishing and enabling a subsidiary governance structure.

Management's commitment to transparency and communication is with the Bank's shareholders and offers investors, analysts, and other stakeholders' access to Management.

This is the third year that RAKBANK embarked on an Integrated Annual Report. Integrated disclosures indicate the relations between various operational and functional units of a given company, combined with the resources they use or affect. The main purpose of RAKBANK's integrated disclosure is to provide an integrated image of the operational, financial, social and sustainable activities of the Bank. As integrated disclosures are company-specific, this Integrated Annual Report focuses on RAKBANK's business model and its associated key activities. The Board has supervised the publishing of this report, ensuring the consolidation of several branches of reports (financial, governance, sustainability, etc.) to highlight RAKBANK's ability to create and maintain value across the business.

BOARD OF DIRECTORS

The Board of Directors' primary responsibility is to provide effective governance over the Bank's affairs for the benefit of its shareholders, and to balance the interests of its diverse constituencies, including its customers, employees, suppliers and local communities. In all actions taken by the Board, the Directors are expected to exercise their business judgement in what they reasonably believe to be in the best interests of the Bank and to comply with relevant laws, regulations, rules and best banking practices. In discharging that obligation, Directors may rely on the Bank's Senior Executives, external advisors and Auditors.

The Board has overall responsibility for corporate culture, governance, and stakeholders' rights, Sharia governance, risk, and credit internal controls, strategy, financial transparency and disclosure, management oversight, and nomination and remuneration.

The Board of Directors is composed of 7 members:

H.E. Shaikh Salem Al Qasimi resigned as Board member effective 1 February 2022 and Mr. Steven Monaghan was appointed as member of the Board of Directors effective 2 February 2022.

Name	H.E. Mohamed Omran Alshamsi
Category: Non-Executive, Independent	Chairman – Independent, Non-Executive
Experience and qualifications	H.E. Mohamed Omran Alshamsi has 35 years of experience with Etisalat, retiring as Chief Executive Officer and Chairman in 2012. He is currently the Chairman of the Board of Directors of RAKBANK, as well as Chairman of the Board of Trustees for the American University in Ras Al Khaimah, and Chairman of the Board of Trustees of RAK Medical and Health Science University.
Period spent as a Board member from the date of first election	Starting from 2015
Membership and positions at any other joint- stock companies	Nil
Main positions at any other important regulatory, government or commercial entity.	- Chairman of the Board of Trustees for the American University in Ras Al Khaimah - Chairman of the Board of Trustees of RAK Medical and Health Science University.

Name	H.H. Shaikha Amneh Al Qasimi
Category: Non-Executive, Independent	Vice Chairman - Independent, Non-Executive
Experience and qualifications	As Chairman of the Investment and Development Office (IDO), the strategic investment arm of the Emirate of Ras Al Khaimah in the United Arab Emirates (UAE), H.H. Shaikha Amneh Saud Al Qasimi is responsible for optimising the investments of the Emirate. She also serves on the boards of several of the IDO's portfolio companies. Prior to her role as Chairman of the IDO, Shaikha Amneh was a member of Goldman Sachs' Investment Strategy Group in New York, where she focused on identifying tactical asset allocation opportunities in emerging market currencies and equities. H.H. Shaikha Amneh earned an MBA degree from the Stanford Graduate School of Business and a Bachelor of Science degree in Business Administration from the American University of Sharjah.
Period spent as a Board member from the date of first election	Starting from 2018
Membership and positions at any other joint- stock companies	Nil
Main positions at any other important regulatory, government or commercial entity.	Chairman of the Investment and Development Office (IDO)

Name	Mr. Salem Ali Al Sharhan
Category: Non-Executive, Independent	Board Member - Independent, Non-Executive
Experience and qualifications	Mr. Salem Ali Al Sharhan worked at Emirates Telecommunication Corporation (ETISALAT) for 23 years until May 2011 as Group Chief Financial Officer. During this time, he represented the company on many boards of international telecommunication companies. At present, Mr. Al Sharhan is the Chairman of the RAKINSURANCE Board, Board member of Dubai International Financial Centre (DIFC), member of the Board of National Cement Company (PJSC), and member of the Board of Trustees of American University of Ras Al Khaimah as well as a member of the Board of Trustees of Ras Al Khaimah Medical & Health Science University. Mr. Al Sharhan holds a Bachelor of Science degree in Accounting and Business Administration from United Arab Emirates University, UAE
Period spent as a Board member from the date of first election	Starting from 2012
Membership and positions at any other joint- stock companies	- Chairman of RAKINSURANCE PSC - Board member of National Cement Company PJSC

Main positions at any other important regulatory, government or commercial entity.	• Board member of Dubai International Financial Centre (DIFC) • Member of the Board of Trustees of American University of Ras Al Khaimah • Member of Board of Trustees of Ras Al Khaimah Medical and Health Science University
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Name	Mr. Ahmed Essa Al Naeem
Category: Non-Executive, Independent	Board Member – Non Independent, Non-Executive
Experience and qualifications	Mr. Ahmed Essa Al Naeem has over 39 years of experience with the Government of Ras Al Khaimah. He is the former Chairman of Ras Al Khaimah's Electricity and Water Authority, General Manager of RAK National Oil Company, and RAK Gas. He is also a former member of the Ras Al Khaimah Municipal Council and the Ras Al Khaimah Chamber of Commerce and Industry and Agriculture and has held additional posts in a number of ministries. Mr. Al Naeem is currently Chairman of RAK Trade Centre, Al Naeem Mall, Al Naeem City Centre, and Khalifa Mall. Additionally, he is Vice Chairman of RAKINSURANCE and a Director of Majan Printing.
Period spent as a Board member from the date of first election	Starting from 2009
Membership and positions at any other joint- stock companies	Vice Chairman of RAKINSURANCE PSC
Main positions at any other important regulatory, government or commercial entity.	• Chairman of RAK Trade Centre, Al Naeem Mall, Al Naeem City Centre, and Khalifa Mall • Director of Majan Printing

Name	Mr. Rajan Khetarpal
Category: Non-Executive, Independent	Board Member – Independent, Non-Executive
Experience and qualifications	Mr. Rajan Khetarpal has 36 years of banking experience with Indian and UAE Banks. His key competencies are in the areas of corporate and commercial banking, project finance, debt capital markets, risk management and general management. Mr. Khetarpal was Deputy General Manager and Head Global Debt Capital Markets in Emirates NBD and later the Bank's General Manager of Risk. Mr. Khetarpal was also the Chief Integration Officer and CEO Designate for Emirates NBD Egypt.
Period spent as a Board member from the date of first election	Starting from 2015
Membership and positions at any other joint- stock companies	Nil

Main positions at any other important regulatory, government or commercial entity.	Nil
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Name	Mr. Kantic Dasgupta
Category: Non-Executive, Independent	Board Member – Independent, Non-Executive
Experience and qualifications	Mr. Kantic Dasgupta is a highly qualified risk management professional with extensive banking experience across all aspects of risk management including credit, market and operational risk. Before joining RAKBANK as a Board member, Mr. Dasgupta spent around two and a half years as an Advisor and Consultant on Risk to Abu Dhabi Islamic Bank, a role that included the oversight of strategic issues and where he was the Chairman of the Governance and Risk Policy Committee. Mr. Dasgupta came to the UAE in 2007 following his appointment as CRO for Mashreq Bank. Prior to that, he spent a long and successful career with Citibank spanning multiple geographies and a variety of senior roles in Risk Management.
Period spent as a Board member from the date of first election	Starting from 2017
Membership and positions at any other joint- stock companies	Nil
Main positions at any other important regulatory, government or commercial entity	Nil

Name	Steven Monaghan
Category: Non-Executive, Independent	Board Member – Independent, Non-Executive
Experience and qualifications	Mr. Steven Monaghan is General Partner, FinMirai, based in Tokyo, Japan. Mr. Monaghan founded the Innovation Groups at DBS Bank and AIA Company Limited and has created new products, businesses, and companies across the technology and financial services industries. He is a private investor in quantum computing, artificial intelligence, life sciences, healthtech, and fintech. Mr. Monaghan has served on the advisory boards of HK Agency Science and Technology Research Institute, Intel, Veritas Genetics, and as an Investment Committee member of True Global Ventures. He has filed 6 patents, including DBS's first patent and Citibank's first mobile payments patent. He has helped numerous tech and financial services institutions in their innovation journeys. Mr. Monaghan holds an EMBA from Helsinki School of Economics and has completed leadership courses at IMD and Wharton.

Period spent as a Board member from the date of first election	Starting 2021
Membership and positions at any other joint- stock companies	NIL
Main positions at any other important regulatory, government or commercial entity	NIL

Board Gender Diversity

The Board acknowledges the benefits of diversity, particularly gender diversity, on the performance of the Board and the Bank. A key component of the Board agenda is advancing a framework for inclusion and promoting gender diversity at the Board's level.

The Board of Directors of the National Bank of Ras Al Khaimah PSC includes, among its members, H.H. Shaikha Amneh Al Qasimi, who is an Independent, Non-Executive Board Member. H.H. Shaikha Amneh Al Qasimi, therefore, represents 14% of the Bank's Board of Directors.

2022 Board Meetings

Number of Board meetings held during the 2022 fiscal year along with their convention dates.

Ser.	Date of Meeting	Number of Attendees	Names of Absent Members
1	1 February	7	Nil
2	29 March	7	Nil
3	8 June	7	Nil
4	15 September	7	Nil
5	10 November	7	Nil
6	15 December	7	Nil

Board Resolutions

No written resolutions outside Board meetings were issued during the year 2022.

Annual General Meeting

In 2022, RAKBANK held its Annual General Meeting on 10 April 2022. The meeting resolutions are disclosed to the Abu Dhabi Securities Exchange ("ADX") and the signed minutes of the meeting are sent to the Securities and Commodities Authority ("SCA").

The Annual General Meeting in respect of the financial year ended 2022 will be held in April 2023. Results and resolutions of the meeting will be published on the Bank's website and will be shared with RAKBANK's regulators.

Board Members Remuneration

The total remunerations paid to the Board members for 2021 was AED 4.8 million, and the proposed remuneration for 2022 will be presented at the Annual General Assembly meeting for approval.

RAKBANK'S BOARD MEMBERS DID NOT RECEIVE ADDITIONAL ALLOWANCES, SALARIES OR FEES OTHER THAN THE ALLOWANCES FOR ATTENDING THE COMMITTEES MEETINGS/BOARD COMMITTEES

The Board has established the minimum permanent committees responsible for Audit, Risk, Nomination and Compensation as stipulated in the Applicable Laws and Regulations. In addition, the Board has established a Board Credit Committee and Board Strategy Committee. The Board may establish any specialised committee to monitor, study or implement any matters, as it deems suitable.

Board Audit Committee

The Board has established the Board Audit Committee to assist the Board in the oversight, monitoring and review of the following:

- The quality and integrity of financial statements and financial reporting.
- The effectiveness of governance, risk management and internal control systems.
- Compliance with laws and regulations.
- Compliance with the Group Code of Conduct.
- The Group Internal Audit (GIA) function.
- The statutory audit process and External Auditors.

Ser.	Name	Title	Number of Meetings held during the Financial Year	Attendance %
1	Mr. Salem Ali Al Sharhan	Chairman	7	100%
2	H.H. Shaikha Amneh Al Qasimi	Member	7	100%
3	Mr. Rajan Khetarpal	Member	7	100%

Board Risk Committee

The Board has established a Board Risk Committee to assist the Board in fulfilling its responsibility with respect to the oversight of the Bank's risk management specifically relating to the Bank's overall risk

appetite, and management of specific risk areas which includes credit risk, market risk, liquidity risk, operational risk, interest rate risk, IT risk, business continuity risk and conduct risk, including the significant risk management policies used in managing these risks and approval of policies relating to these risks. The Board Risk Committee also assists the Board in fulfilling its responsibility with respect to the oversight of the compliance framework specifically relating to anti-money laundering, sanctions, regulatory compliance, subsidiaries compliance, Sharia compliance, consumer protection, corporate governance and legal including approval of policies (as relevant) relating to these areas.

Ser.	Name	Title	Number of Meetings held during the Financial Year	Attendance %
1	Mr. Kantic Dasgupta	Chairman	9	100%
2	H.H. Shaikha Amneh Al Qasimi	Member	9	100%
3	H.E. Sheikh Salem Bin Sultan Al Qasimi*	Member	1	11%
4	Mr. Rajan Khetarpal*	Member	9	78%

*H.E. Sheikh Salem Bin Sultan Al Qasimi resigned as a Board member effective 1 February 2022 and Mr. Rajan Khetarpal was appointed as a Committee member at the BNRC meeting held on 21 February 2022

Board Nomination and Remuneration Committee

The Board has established a Board Nomination and Remuneration Committee to assist the Board in areas of board composition; nomination and remuneration of Board members and Senior Management; establishing and managing the induction and ongoing Director development programmes; assessment of the Board, its Committees, and Directors; succession planning for Board members and Senior Management, and HR policies.

Ser.	Name	Title	Number of Meetings held during the Financial Year	Attendance %
1	H.E. Mohamed Omran Alshamsi	Chairman	2	100%
2	Mr. Ahmed Essa Al Naeem	Member	2	100%
3	Mr. Steven Robert Monaghan*	Member	1	50%

*H.E. Sheikh Salem Bin Sultan Al Qasimi resigned as a Board member effective 1 February 2022 and Mr. Steven Monaghan was appointed as a Board member effective 2 February 2022; Mr. Monaghan attended one meeting for the FY, the one held after he was appointed as a Board member.

Board Strategy Committee

The Board Strategy Committee has been established by the Board of Directors to assist the Board and provide guidance to the Group Chief Executive Officer and Senior Management in managing the affairs of the Bank in areas of the Bank's overall strategy, operational and financial performance monitoring, and budgeting.

Ser.	Name	Title	Number of Meetings held during the Financial Year	Attendance %
1	H.H. Shaikha Amneh Al Qasimi	Chairman	12	100%
2	Mr. Salem Ali Al Sharhan	Member	12	100%
3	Mr. Rajan Khetarpal	Member	12	100%

Board Credit Committee

The Board Credit Committee has been established by the Board to assist the Board of Directors to primarily manage credit risks of the Bank (Personal Banking, Business Banking, Wholesale Banking, FI, Trade Finance and Treasury related asset portfolios), and review, approve or recommend individual or group credits within the authorities delegated by the Board.

Ser.	Name	Title	Number of Meetings held during the Financial Year	Meeting Attendance
1	Mr. Rajan Khetarpal	Chairman	32	31
2	Mr. Salem Ali Al Sharhan	Member	32	32
3	Mr. Kantic Dasgupta	Member	32	32

Board Compliance, Corporate Governance and Legal Committee

The Board Compliance, Corporate Governance and Legal Committee (BCCGL) in its meeting held in July 2022 resolved to merge the BCCGL Committee with the Board Risk Committee (BRC). Thereafter, the BRC in its meeting held in October 2022 accorded the decision of the BCCGL Committee and approved the revised BRC terms of reference wherein the oversight on compliance, legal and corporate governance functions fell under the purview of the BRC. The Board, also, in its meeting held in November 2022 approved the decision of the BCCGL Committee and the BRC.

AED 000			
Remuneration Amount		Senior Management	Other Material Risk-takers
Fixed Remuneration	Number of employees	17	6
	Total fixed remuneration	23,237,120	6,305,813
	Of which: cash-based	23,237,120	6,305,813
Variable Remuneration	Number of employees	13	6
	Total variable remuneration	11,026,000	1,637,693
	Of which: cash-based	The above remuneration was cash-based	The above remuneration was cash-based
Total Remuneration		34,263,120	7,943,506

EXECUTIVE MANAGEMENT

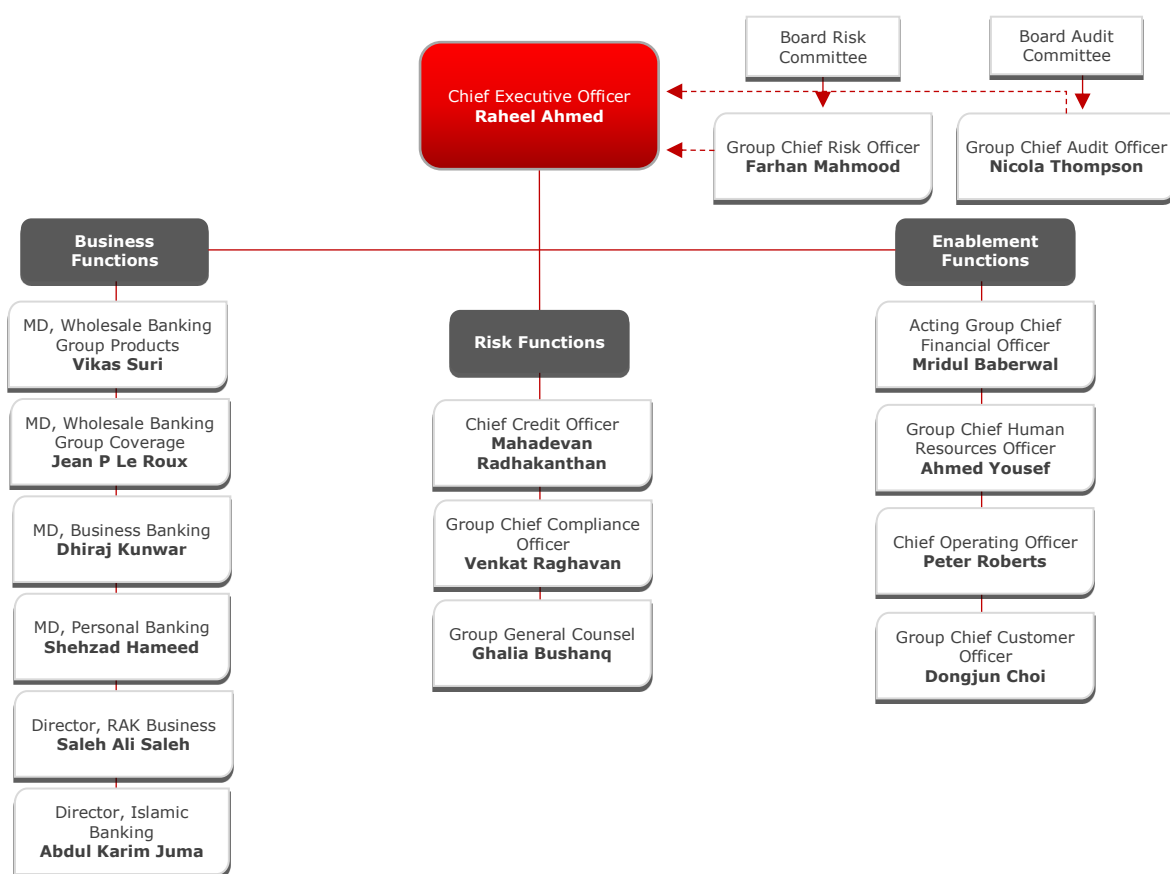
There is a clear demarcation of roles and responsibilities between the Board and Senior Management that fosters an environment of transparency, confidence and mutual trust in which the Board is able to constructively challenge and provide guidance to Management.

The Senior Management operates within the organisational structure and clearly defined delegated authorities as determined by the Board.

The Executive Management team comprising of Senior Management, supports the Group Chief Executive Officer (GCEO) in the preparation of strategies, budgets, policies and procedures, and handling of significant or fundamental operative matters as well as ensuring effective internal communications. The GCEO operates in accordance with the authority delegated to him by the Board of Directors through a Power of Attorney. The GCEO, with support from the Executive Management team, is responsible for the day-to-day management of the business, in line with the annual Strategy Plan approved by the Board of Directors.

Raheel Ahmed Group Chief Executive Officer	Abdul Karim Juma Director of Islamic Banking	Ahmed Yousef Group Chief Human Resources Officer	Amel Barhouma Chief of Staff
Dhiraj Kunwar Managing Director of Business Banking	Dongjun Choi Group Chief Customer Officer	Farhan Mahmood Group Chief Risk Officer	Ghalia Bushanq Group General Counsel
Jean Pierre Le Roux Managing Director, Wholesale Banking Group - Coverage	Mahadevan Radhakanthan Chief Credit Officer	Mridul Baberwal Acting Chief Financial Officer	Nicola Thompson Group Chief Audit Officer
Peter Edward Roberts Chief Operating Officer	Saleh Ali Saleh Director of RAK Business	Shehzad Hameed Managing Director Personal Banking	Venkat Raghavan Group Chief Compliance Officer
Vikas Suri Managing Director Wholesale Banking Group - Products			

The following illustrates the complete organisational structure of the Bank



INTERNAL CONTROLS

The Board acknowledges its responsibility for the Bank's internal controls system, review of its work mechanisms and ensures operation effectiveness. All of the Bank's risk management policies; including the Internal Controls, Enterprise Risk, ICAAP and the Bank's overall Risk Appetite Statement, are approved by the Board Risk Committee, which is responsible for risk and control governance within the Bank.

According to the SCA Corporate Governance regulations article 76 & 77 (Integrated Reporting) and Corporate Governance CBUAE regulation 2019/83, the declaration for Internal Controls is accompanied by the Risk Framework, Internal Audit and Compliance statements. RAKBANK structures the Internal Controls function as part of the Risk Management framework and policies. There is no separate Internal Control reporting to a Board level committee, but the complete Internal Controls assessment is included in the Risk Management's regular reporting and the Bank's Risk Appetite Statement to the Board Risk Committee.

A quarterly Risk report submitted to a Board level committee includes the Internal Control framework and its effectiveness.

RAKBANK's Internal Control department did not detect any major problems during 2022. The Bank aligns itself with reporting standards of any issues with that of the Central Bank of the UAE and SCA, including compliance. During the year no major violations or lack of compliance had to be reported to the CBUAE or SCA.

EXTERNAL AUDIT

The External Auditor is appointed annually at the Annual General Assembly. The Audit Committee is responsible for recommending to the Board the appointment, re-appointment, and rotation of the auditing firm and/or the principal partner in charge of the Bank's audit to the Board.

The Audit Committee has oversight responsibility for the External Auditors, whom they meet regularly to review the scope, quality, effectiveness, and conclusions of their work. The Committee also considers the provision of non-audit services performed by the Auditors to ensure that they are objective and independent of the Bank.

The External Auditor attends and presents to the Board the results of the annual audit of the accounts. In addition, they also attend the General Assembly meeting and are available to answer questions.

The External Auditor submits an overview of the Company's Audit Report to the shareholders. The Bank's External Auditor for year 2020 was PricewaterhouseCoopers (PwC), one of the world's big 4 auditors. PwC were reappointed for the 2021 financial year by the shareholders at the AGM held in April 2022.

Statement of fees and costs for the audit or services provided by the External Auditor, are according to the following schedule:

Name of the audit office and partner auditor	PwC (Ras Al Khaimah Branch), License no. 41548, Julphar Towers, Level 24, Office No. 2402, Ras Al Khaimah - United Arab Emirates. Stuart Scoular is the Partner.
Number of years he served as the Company External Auditor	Reappointed from 1 January 2022 for 1 year. Previously audited the Bank and its subsidiaries for 24 years from year 1994 to year 2015 and years 2019 to year 2021.
Total audit fees for 2022 in (AED)	1,694,278.75
Details and nature of the other services (if any). If there are no other services, this matter shall be stated expressly.	Agreed upon procedures as required by the regulators.
Statement of other services that an External Auditor other than the Company Accounts Auditor provided during 2021 (if any). In the absence of another External Auditor, this matter is explicitly stated.	Auditor name: PWC Details of provided services: Agreed upon procedures as required by the regulators.

Company's Auditor had NO reservations included in the interim or annual financial statements for 2022

INTERNAL AUDIT

The role of Internal Audit, as the third line of defence is to provide independent assurance to the Board and Executive Management on the quality and effectiveness of governance, risk management and internal controls to monitor, manage and mitigate key risks in order to achieve the Group's objectives.

RAKBANK has fully adopted the principles and standards for Internal Audit as defined by the Institute of Internal Auditors (IIA) and adheres to the International Professional Practices Framework (IPPF) for implementing its internal audit services. GIA is an active proponent of the Bank's Emiratization, employee development programmes and its CSR activities.

The Group Chief Audit Officer (GCAO) reports directly to the Board Audit Committee (BAC), which is responsible for the oversight, monitoring, and review of the internal audit function; the quality and integrity of the Group's financial reporting and its published financial statements; and the statutory audit process and External Auditors.

At least annually, Group Internal Audit (GIA) conducts a comprehensive top-down risk assessment of RAKBANK's business activities, products, services, policies, and processes, including those of its subsidiary entities. Risks arising from all Group operations are considered, in conjunction with emerging and behavioural risk parameters, to form the basis of the annual audit plan, which is subject to approval by BAC. This systematically includes coverage of the Bank's Corporate Governance framework, conduct risk, processes and controls supporting the Anti-Bribery and Corruption Policy, Financial Crime Compliance Framework, procurement activities and the complaint handling processes.

Risk-based audits are performed at a process level as well as from an organisational perspective for aspects of governance, risk, and control, which contributes to enhanced stakeholder confidence and trust in the Bank.

Whistleblowing

RAKBANK places considerable value in ensuring business ethics and compliance and works to protect the Bank by promoting organisational behaviour of which RAKBANK and its stakeholders can be proud. The Bank encourages anyone with reason to believe that the law, regulation, Code of Ethical Conduct, or any RAKBANK policy and procedure has been violated to immediately report what they know or suspect, for immediate action.

To facilitate an ethical and transparent culture at RAKBANK, employees, customers and stakeholders are encouraged to raise their concerns through whichever of the Bank's channels, they prefer. The Bank's Whistle-blower reporting line is available through the Bank's internal and external websites and facilitates direct communication and reporting of any inappropriate or unethical behaviours.

GIA holds ethical responsibility in the highest regard and supports the Bank in implementing robust and ethical business practices. All whistle-blower cases raised during 2022 have been attended to with utmost priority, each of which has been resolved with independence and fairness.

Whistleblowing Management	2018	2019	2020	2021	2022
Cases reported to the Whistle-blower team*	8	16	28	22	33
Confirmed Whistle-blower cases	3	13	10	0	22

* Notifications on fraudulent activities include accusations of bribery and corruption, receipt of fraudulent customer/employee data and documentation. Cases reported to the WB team that could be evidenced were investigated with assistance from relevant teams (Fraud and HR) and disciplinary actions were initiated against such staff including termination. Staff complaints and grievance matters were addressed to resolution with Business and HR intervention. Cases that were not actioned by WB included operational gaps, service complaints and personal grievances, which were forwarded to respective teams (including E-Channels, SOC and HR) for analysis and appropriate resolution.

RISK FRAMEWORK

Business Ethics and Compliance

RAKBANK's stakeholders rightly demand a bank with the highest ethics and good compliance to ensure their assets are protected, and RAKBANK demands the same of itself. The Bank has established processes to ensure continuous compliance with the regulatory requirements applicable to the business. The Bank adheres to the principles of the UAE Banks Federation's Code of Conduct and relies on its internal Staff Code of Conduct to guide ethics and compliance across the Bank.

RAKBANK also conducts various online and classroom awareness programmes. These ensure that Bank staff are up to date with recent trends and capturing immediate risks. It also reinforces awareness of their responsibilities for both preventing and reporting incidents related to fraud and/or corruption. The Bank's HR policy clearly states:

"The Bank is committed to achieving its business goals legitimately. Offering or accepting a bribe contravenes this commitment and is illegal. Employees must never offer, solicit, or accept a bribe in any form for the purpose of obtaining or retaining business or to gain an improper advantage for the Bank."

To ensure timely identification and elimination of potential new fraud activities in the market, RAKBANK also actively participates in UAE banking fraud forums and various initiatives by the Dubai Police.

The Board Risk Committee endorses the Bank's overall risk management strategy and appetite, providing the necessary direction on risk management measures undertaken by the Bank.

Executive accountability for continuous assessment, monitoring and management of the risk environment and efficacy of risk management procedures lies with executive level committees (the Management Risk and the Management Credit Committees). Various risk functions are centralised under an independent risk division headed by the Chief Risk Officer (CRO) who reports to the Board Risk Committee.

The Board has also formed the Board Compliance, Governance and Legal Committee. This Committee assists the Board in fulfilling its responsibility for oversight of the Bank's Compliance framework specifically relating to anti-money laundering, sanctions, regulatory compliance, Sharia compliance, consumer protection, corporate governance and legal to manage risks in these areas.

This Committee is supported by a Management level committee.

Data Privacy and Security

As information technology develops, so do the risks associated with using it. RAKBANK's core business focus is to safeguard customer assets, including personal data. As a highly material topic, RAKBANK ensures that data privacy and security is constantly assessed across the business and improved wherever and whenever possible.

In accordance with the established industry standards governing RAKBANK and all its employees, RAKBANK has the necessary processes in place to ensure confidentiality and privacy of customer information. RAKBANK has aligned its security policy with industry standard ISO 27001 and guidelines published by NESAC (National Electronic Security Authority). In addition, key applications that support the contact centre and branches are subjected to risk assessments as per the approved risk management process. All identified risks are addressed in accordance with the risk management process.

RAKBANK strives to maintain its security parameters in accordance with industry benchmarks, and to assess these parameters regularly. It is constantly working on multiple initiatives to further enhance the Bank's security infrastructure to provide a robust and secure platform to the Bank's customers to conduct their banking activities.

Islamic Banking Governance

RAKIslamic (the Islamic window of RAKBANK) offers a complete range of Sharia-compliant financial solutions to Personal, Business and Wholesale Banking customers. The division is regulated by the Central Bank of the UAE and the Higher Sharia Authority (HSA).

Its activities are supervised by an independent Internal Sharia Supervision Committee (ISSC). The Bank, in compliance with the new Standards, has undertaken all measures to continually enhance governance of its Islamic business and to ensure complete Sharia-compliance. All Islamic asset and liability products are offered through the Islamic Banking platform. Sharia governance is carried out under the guidance of the 3-member ISSC, which meets periodically and guides the business. ISSC undertakes Sharia supervision of RAKIslamic business, activities, products, services, contracts, documents, and Code of Conduct. It ensures RAKIslamic's compliance with the resolutions and standards issued by the CBUAE and HSA.

To ensure transparency and a clear distinction between conventional and Islamic business, the Bank maintains separate sets of product-specific terms and conditions, legal documentation, application forms, and service and price guides. A separate tariff board is displayed at branches and Islamic features are embedded within all transactional documentation.

RAKBANK's Treasury segment manages Islamic liquidity and asset liability funding distinctly for the Islamic Banking division. RAKIslamic is a proud member of the Islamic Banking Committee of the UAE Banks Federation, formed by the Central Bank of the UAE, which represents all Islamic banks and Islamic banking windows in the country and is a member of the Accounting and Auditing Organisation for Islamic Financial Institutions (AAOIFI) headquartered in Bahrain, a non-profit organisation that was established to maintain and promote Sharia Standards for Islamic Financial Institutions worldwide.

RISK MANAGEMENT

Approach

The Bank's business model focuses on core banking activities including Business Banking, Personal Banking, Wholesale Banking, Treasury and Islamic Banking activities. The Bank's Risk Management strategy is intrinsically interlinked with the Bank's business model and strategy, i.e., Bank's risk appetite and its business strategy co-exist to achieve and enhance shareholder value. The enterprise wide risk management structure of the Bank incorporates the effective participation of the Board and Senior Management at different levels to provide oversight and ensures the creation and sustenance of a proper risk management environment. It is designed to ensure that the formal process is in place to identify, assess, manage, report and monitor all plausible risks that could have a significant impact on the Bank and allocates responsibilities for Risk Management to provide clear accountability. The Bank's philosophy is to proactively manage risks to ensure that risk-taking activities are commensurate with its size and complexity of operations.

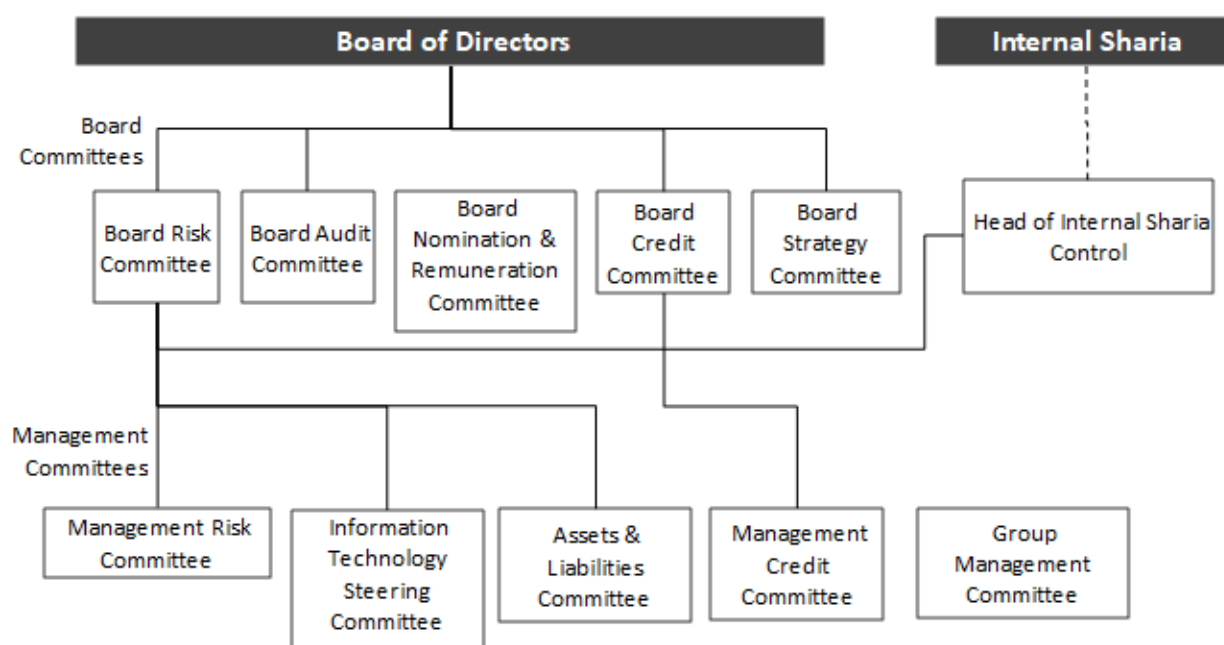
RAKBANK ensures substantial due diligence on risk monitoring to ensure ongoing compliance with the approved risk appetite. The Bank has an effective structure in place for reporting to relevant Management Committees and the Board delegated Risk Committee.

Risk Governance

An effective risk department is vital to achieving the Bank's strategic growth objectives in a sustainable manner. RAKBANK's risk management policies set out governance and structures, responsibilities, and processes to monitor, manage and mitigate the risks that the Bank accepts and incurs in its activities. Further, the risk management function is independent of the risk-taking functions, in line with the guidelines of the Central Bank of the UAE. RAKBANK has adopted the international best practice of 3 lines of defence in shaping the Bank's risk governance structure.

RAKBANK uses a consistent risk management framework at all levels of the organisation and across all risk types.

The 3 lines of defence signify a clear division of responsibilities between the risk owners (the business, operations, and support units), the control functions (Risk Management) and the Internal Audit function for safeguarding the Bank's assets and reputation against operational risks arising from day-to-day business activities. The three lines of defence help the Bank to address identified risks, and to design and implement control activities, to ensure that risks the Bank takes are in accordance with its approved risk appetite. RAKBANK's Risk Management structure is outlined as follows:



Risk Culture

The culture of managing risk is integral to the Bank, and its responsibilities are documented in the Bank's values and principles, Code of Conduct, and related policies, as well as demonstrated through executive communications and behaviours. These are similarly integrated into employee training programmes, which include courses on fraud prevention, cybersecurity, customer service, and others that take into account the full range of risk.

Risk Management Highlights

During 2022, we revamped our risk reporting and enhanced our cross-border risk management using macroeconomic indicators. In addition, we completed phase one of the Treasury system for better managing our investment book risk, while also completing our first Business Risk Review of the Commercial Banking credit book.

As presented below, RAKBANK has a diversified portfolio across various industries. This not only helps the Bank to serve its diversified portfolio of customers, but also adds value in maintaining a low concentration risk. RAKBANK is compliant across all internal and regulatory parameters of risk diversification.

	On Balance Sheet Items				Off Balance Sheet Items	Total
	Loans and Advances AED 000	Investment Securities AED 000	Due from Other Banks AED 000	Total Funded AED 000	AED 000	AED 000
31 December 2022						
Agriculture, fishing and related activities	4,539	56,042	-	60,581	54	60,635
Crude oil, gas, mining and quarrying	185,285	239,178	-	424,463	26,227	450,690
Manufacturing	2,335,747	570,985	-	2,906,732	260,113	3,166,845
Electricity and water	807,543	963,711	-	1,771,254	313,309	2,084,563
Construction and real estate	2,349,220	460,055	-	2,809,275	799,769	3,609,044
Trading	4,534,461	-	-	4,534,461	841,000	5,375,461
Transport, storage and communication	2,845,584	604,427	-	3,450,011	1,370,810	4,820,821
Financial institutions	1,472,440	4,081,357	11,513,619	17,067,416	945,660	18,013,076
Services	2,994,623	507,371	-	3,501,994	1,170,131	4,672,125
Government	507,466	4,038,046	-	4,545,512	3,403	4,548,915
Personal and Consumer Banking	20,107,411	-	-	20,107,411	1,210	20,108,621
Total exposures	38,144,319	11,521,172	11,513,619	61,179,110	5,731,686	66,910,796
Provision for credit loss	(2,073,052)	(57,124)	(57,298)	(2,187,474)	(27,018)	(2,214,492)
Net exposures	36,071,267	11,464,048	11,456,321	58,991,636	5,704,668	64,696,304

Risk Management supports the Bank to enable usage of digital channels for micro-finance and retail credit origination through a tablet-based system. We are developing Digitisation 2.0 as the driver of a comprehensive effort by RAKBANK to move towards the digitisation of most of its services. Risk Management is enabling this by thoroughly assessing risks involved in this process. It also provides constructive mitigation approaches to these risks.

Moreover, Risk Management endorses RAKBANK's strategy to participate as an active partner in the region's first and biggest fintech accelerator and hub. It does this by supporting and assessing the Bank's initiatives on seamless payments – SMEsouk – a digital customer solution that increases efficiency and access whilst reducing the use of paper for various functions such as payments and opening new accounts.

Financial Crime

Fraud

RAKBANK knows that financial crime including money laundering, terrorism financing and fraud, presents unacceptable risks to the Bank and all its shareholders. The risk of fraud is increasing every day, driven by contributing factors such as globalisation, competitive markets, rapid advancement in technology, and periods of economic difficulty. The Bank's Management and Board recognises that proactive fraud risk management is an integral part of RAKBANK's overall risk management strategy.

As such, RAKBANK has set up focused units to address, prevent, detect, and respond to all aspects of fraud. In 2017, RAKBANK implemented an industry-leading application fraud risk management solution to augment its fraud prevention and detection capabilities. The Bank also implemented a digital fraud detection and prevention solution that covers both internet and mobile banking platforms. The Bank has established a Fraud Risk Management Framework that demonstrates the expectations of the Board of Directors and Senior Management and their commitment to high integrity and ethical values. This initiative is the Bank's approach to managing fraud risk in a timely and efficient manner by setting up systems and procedures to identify and actively mitigate fraud risks. The Bank has adopted a 3-pronged approach to fraud risk management under the new framework:

- Fraud Prevention
- Fraud Detection
- Fraud Response

Fraudulent Transaction Activity	2018	2019	2020	2021	2022
Amount of fraudulent transaction activity in AED millions (total value of account holder transactions disputed by account holders due to fraud)	0.78	1.26	1.42	2.41	6.14
% of activity from card-not-present fraud	67%	90%	97%	100%	94%

The Bank has dedicated teams that monitor and respond to both digital and non-digital fraud. This is achieved through a combination of industry leading fraud detection and prevention solutions coupled with continuous customer awareness through email and SMS. These solutions utilise rule engines and behaviour anomaly detection algorithms to identify and prevent while instantly responding to any fraud attempts. RAKBANK has partnered with a global brand monitoring service that identifies and remediates any Phishing, Vishing, and SMSing attempts directed at our customers.

Furthermore, the Bank has a BitSight security rating of 800, on a scale of 250-900, that is above global financial industry range. BitSight security ratings are a data-driven and dynamic measurement of an organisation's cybersecurity performance that is both material and validated. These daily ratings are derived from objective and verifiable information.

Compliance

The Compliance function is an independent line of defence. In line with the Central Bank of UAE's regulations and standards on compliance, the Chief Compliance Officer reports directly to the CEO and has unrestricted access to the Board Compliance Corporate Governance and Legal Committee.

Regulatory, Anti-Money Laundering and Sanctions Compliance

Compliance continues to be an important area of focus for the Bank's Board and Management. An independent compliance function oversees the compliance risk management framework and procedures across the Bank. Apart from reviewing the regulatory landscape and amending and/or issuing internal policies, the compliance function is also responsible for actively mitigating anti-money laundering (AML) and countering terrorism financing and sanctions risks. The Bank maintains a zero-tolerance approach with regard to any compliance breach, whether regulatory, sanctions or AML. The function is staffed by qualified professionals. Workshops and training sessions are conducted periodically to maintain and enhance compliance discipline across the Bank. RAKBANK has made significant investments in payment screening and monitoring surveillance technology and has successfully implemented customer name screening modules.

The function works closely with the business heads and CRO to set the compliance risk appetite and presents compliance risk updates at every Board Compliance, Corporate Governance and Legal Committee meeting. Our Chief Compliance Officer is also registered with the regulators as RAKBANK's Money Laundering Reporting Officer and drives our anti-money laundering and counter terrorism, financing and sanctions practices.

Responsible Procurement

RAKBANK believes that ethical business extends beyond its own operations and is impacted by its suppliers. For this reason, responsible procurement must be addressed throughout the supply chain, as it is affected by who is chosen to engage in business and from where, as well as how those parties manage their own impacts. Irresponsible procurement produces unnecessary risk for the business. RAKBANK takes this seriously and addresses it through the Bank's procurement process and guidelines.

RAKBANK's procurement programme takes cognisance of ethical practices, the protection and development of SMEs, and eliminating counterfeit products by dealing direct with OEMs. Our procurement objectives not only address the risks to our business, but also aim to develop the supplier ecosystem while protecting all stakeholders through fair play.

Procurement within the Bank is governed and reviewed by the Executive Procurement Committee, which incorporates the standard procurement procedure and policy in its decision-making.

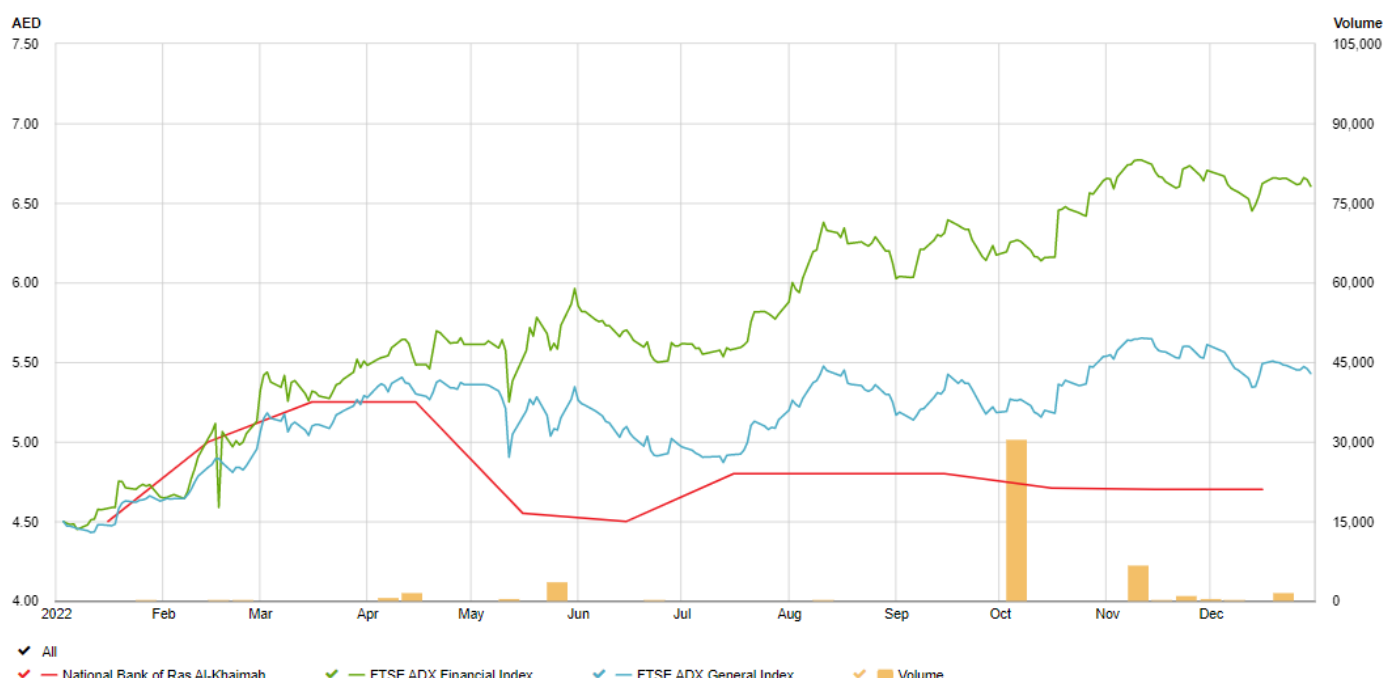
RAKBANK's newly developed Supplier Code of Conduct was established to communicate the Bank's and its affiliated companies' expectations in respect of the safe and ethical business practices of all providers in the Company's supply chain.

We expect companies to embrace this commitment to integrity when conducting business with and/or on behalf of RAKBANK.

Procurement at RAKBANK	2018	2019	2020	2021	2022
Total number of suppliers engaged	652	706	625	686	704
Total number of local suppliers engaged	530	562	489	543	557
Total number of SME suppliers engaged	457	483	539	459	304
Total procurement spending (actual) (AED in millions)	393.1	584.1	655.3	645.7	614.2

INVESTOR RELATIONS AND SHARE PERFORMANCE

General information pertaining to the Bank's share price movement with the general market index and sector index to which the Bank belongs to during 2022.



A. Statement of the shareholders ownership distribution as on 31 December 2022 (individuals, companies, governments) classified as follows: local, Gulf, Arab and foreign.

Ser.	Shareholders Classification	% of Owned Shares			Total
		Individuals	Companies	Government	
1	Local	14.7%	18.3%	52.8%	85.81%
2	Arab	4.5%	8.4%	00	12.87%
3	Foreign	0.3%	1.1%	00	1.33%
4	Total	19.4%	27.8%	52.8%	100.00%

B. Statement of shareholders owning 5% or more of the Company's capital as on 31 December 2022:

Ser.	Name	Number of Owned Shares	% of Owned Shares of the Company's Capital
1	Government of Ras Al Khaimah	884,665,838	52.8 %
2	Mr. Ahmad Essa Ahmad Al Naeem	113,050,000	6.74 %
Government of Ras Al Khaimah owns directly and indirectly 52.78% of RAKBANK Capital			

C. Statement of how shareholders are distributed according to the closing position as on 31 December 2022:

Ser.	Share(s) Ownership	Number of Shareholders	Number of Owned Shares	% of Owned Shares of the Capital
1	Less than 50,000	178	1,828,492	0.11%
2	From 50,000 to less than 500,000	116	2,0323,946	1.21 %
3	From 500,000 to less than 5,000,000	55	96,639,771	5.77%
4	More than 5,000,000	27	1,557,453,219	92.91%

D. Shares owned/ held by Board members as on 31 December 2022

Ser.	Share(s) Ownership	Number of Owned Shares
1	H.E. Mohamed Omran Al Shamsi, Chairman	211,100
2	H.H. Shaikha Amneh Al Qasimi, Vice Chairman	Nil
3	Mr. Ahmed Essa Al Naeem, Member of the Board	113,050,000
4	Mr. Salem Ali Al Sharhan, Member of the Board	Nil
5	Mr. Rajan Khetarpal, Member of the Board	Nil
6	Mr. Steven Monaghan, Member of the Board	Nil
7	Mr. Kantic Dasgupta, Member of the Board	Nil

E. The Investor Relations Team can be reached via the below dedicated number and email ID

- RAKBANK IR Team Contact
- Phone Number: +971 4 291 5064
- Email ID: ir@rakbank.ae
- The link of investor relationships page on the Bank's website.

<https://rakbank.ae/wps/portal/header/investor-relations>

FINANCIAL STATEMENTS

DIRECTORS' REPORT TO THE SHAREHOLDERS

For and on behalf of the Board of Directors

We are proud and excited to present the financial and operational results of RAKBANK (the “Bank”) and its subsidiaries (collectively known as the “Group”) for the year ended 31 December 2022. Group Net Profit for the year amounted to AED 1,163.4 million, an increase of 53.4% over the previous year. Total Assets stood at AED 66.5 billion, increasing by 15.5% over 2021. Gross Loans and Advances closed at AED 38.1 billion, up by 7.6% over the previous year. Deposits grew by 15.3% with CASA growing by AED 2.2 billion and time deposits growing by AED 3.7 billion. The Return on Average Assets ratio for the year was 1.9% compared to 1.4% for the previous year and Return on Average Equity was 13.5%, compared to 9.5% in 2021.

Financial Performance

The increase of AED 405.1 million in Net Profit was mainly due to an increase in Net interest income by AED 320.9 million and decrease in provisions for expected credit losses by AED 272.6 million which was partially offset by a decrease in Non-Interest Income of AED 99.6 million and an increase in operating expenses by AED 88.8 million.

Gross Interest Income and Income from Islamic Financing increased by AED 566.6 million which was offset by increase in Interest Expense and Distributions to Depositors by AED 245.7 million that resulted in total increase in Net Interest Income and Net Income from Islamic Financing of AED 320.9 million. Interest income from conventional loans and investments increased by 26.1%, while interest costs on conventional deposits and borrowings increased by 109.0%. Net income from Sharia-compliant financing increased by AED 20.9 million. Gross Interest Income and Income from Islamic Financing increased due to an increase in yields on loans and investment books.

Non-Interest Income decreased by AED 99.6 million to AED 962.5 million. This was mainly due to a decrease of AED 72.7 million in investment income due to lower trading profits in light of the increasing interest rates, a decrease in Net insurance underwriting profit by AED 31.5 million due to losses in the motor and medical portfolios in RAKINSURANCE, decrease in Net fees and commission of AED 28.7 million mainly due to lower income from Wealth Management Investment sales and lower other income by AED 24.2 million which was partially offset by an increase of AED 57.6 million in forex and derivative income due to higher customer volumes.

Operating Expenses increased by AED 88.8 million compared to the previous year. The staff and outsourcing costs increased by AED 75.2 million, credit cards service provider related costs increased by AED 29.6 million and technology costs increased by AED 6.4 million, which was partially offset by a decrease of AED 11.6 million in occupancy cost, AED 8.7 million in depreciation and AED 2.7 million in marketing costs. The Group's Cost to Revenue ratio decreased to 43.0% compared to 43.2% for the previous year.

Operating Profit before impairment losses increased by AED 132.5 million from 2021 and provisions for credit losses decreased by AED 272.6 million (25.3%) from the previous year. Total impairment provision for the year was AED 804 million compared to AED 1,076.7 million in 2021.

The Non-Performing Loans and Advances to Gross Loans and Advances ratio improved to 3.0% from 4.0 % in the previous year. Additionally, the net credit losses to average loans and advances decreased to 2.1% in 2022 compared to 3.1% in 2021.

Total Assets increased by 15.5% to AED 66.5 billion compared to 2021. This was mainly due to an increase in Gross Loans and Advances by AED 2.7 billion, Investments by AED 2.0 billion and placements with other banks by AED 3.0 billion. Wholesale Banking and Financial Institutions lending increased by AED 1.6 billion, Business Banking loan Portfolio by AED 1.0 billion and Retail Banking's loan portfolio by AED 102.8 million respectively compared to previous year-end.

Customer deposits grew by AED 5.9 billion to AED 44.9 billion compared to 2021. This growth came mainly from an increase of AED 3.7 billion in Time Deposits and net increase of 2.2 billion in CASA accounts.

After taking into consideration the profit for 2022 and expected dividend, the Bank's Capital adequacy ratio as per Basel III was 16.4% at 31 December 2022 as compared with 17.0% at 31 December 2021. This level of capital provides the Bank with ample room for growth in 2023. The regulatory Eligible Liquid Asset Ratio at the end of the year was 12.8%, compared to 11.6% for the previous year. The Advances to Stable Resources ratio stood at a comfortable 79.7% compared to 82.8% at the end of 2021.

Ratings

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

Rating Agency	Last update date	Deposits	Outlook
Moody's	November 2022	Baa1 / P-2	Stable
Fitch	November 2022	BBB+ / F2	Stable
Capital Intelligence	August 2022	A- / A2	Positive

Regulatory disclosure

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

Key Achievements

At RAKBANK, we have been making great strides in the past year by adopting new technology, improving our customer service, and diversifying our product offerings. These efforts have helped to increase our efficiency, security, and convenience of services for customers. Our main achievements during 2022 were:

- RAKBANK signed a Memorandum of Understanding (MoU) with Tradeling, the hyper growing e-marketplace focused on business-to-business (B2B) transactions in the Middle East and North Africa, to provide an enhanced value offering to the Bank's Business Cardholders.

- RAKBANK announced the launch of a “first of its kind” digital on boarding experience in the region that will enable SMEs to apply for Business Loans, Term and Working Capital Finance and Asset based finance through the Bank’s Quick Apply portal.
- RAKBANK and Abu Dhabi Global Market (ADGM), the international financial center of UAE’s capital, have signed a Memorandum of Understanding (MoU) to provide preferential banking services to ADGM-licensed entities. The agreement facilitates efficient bank account opening for all entities, including SMEs, exchange houses dealing in virtual assets, hedge funds and corporations.
- RAKBANK joined the Arab Monetary Fund (AMF)’s Buna payment platform. This partnership is in line with the Bank’s digital transformation strategy and aims to provide customers with an enhanced payment service platform for sending and receiving cross-border, multicurrency payments safely and securely.
- RAKBANK partnered with global AI Cloud leader, Data Robot and local AI service provider e& enterprise, to build and deploy industry leading AI platform to accelerate its artificial intelligence and machine learning- driven analytics.
- RAKBANK and Honeywell announced a strategic energy saving project to help improve energy efficiencies and carbon reduction goals. Honeywell will optimize heating, ventilation and air conditioning (HVAC), building management system (BMS) and chillers within RAKBANK’s headquarters building, located in Ras Al Khaimah, spanning a total area of 19,900sqm. As part of the five-year service contract, Honeywell will also regularly assess and optimize the energy saving performance of the building's systems to identify opportunities for further energy savings.
- RAKBANK HQ, will be the first bank in the region to be fully connected to the Honeywell Building Operations Centre, headquartered from Dubai, which will provide remote 24/7 monitoring and control of critical building management systems.
- RAKBANK teamed up with Etihad Credit Insurance (ECI), the UAE Federal export credit agency, to boost SME financing through the UAE Trade Finance Gateway, a digitized platform that helps exporters and re-exporters based in the country to obtain finance easily and expand their businesses internationally.

Recognition in 2022

- Titanium Award for RAKBANK – The Asset ESG Awards
- Best SME Bank – Banking Excellence Awards
- Best SME Bank in UAE – Global Finance Magazine
- UAE’s SME Bank of the Year – Asian Banking & Finance Awards
- UAE’s Mid-Sized Domestic Retail Bank of the Year – Asian Banking & Finance Awards
- UAE’s Fraud Initiative of the Year – Asian Banking & Finance Awards
- The Number 2 Top Investment House in MENA – The Asset Benchmark Research
- Excellence in SME Banking – Finnovex Awards
- Advertiser of the Year – MMA Awards
- Machine Learning & AI – MMA Awards
- Audio Sonic Branding – MMA Awards
- Customer Experience – MMA Awards
- Data Insights – MMA Awards
- Lead Generation / Direct Response / Conversions – MMA Awards
- Best Vertical Acceptance Product MENA for Skippy – EDGE 2022

Outlook for 2023

As we look ahead to the future, I am proud to say that RAKBANK is poised for continued growth and success. Despite the challenges posed by the pandemic, our team worked tirelessly to ensure that we remain a strong and reliable partner to our customers and communities.

The UAE economy has been experiencing positive momentum in recent times. Over the last year, the country has seen steady growth, driven by a combination of factors such as increased investment, improved infrastructure, and a thriving tourism industry. The country has also been successful in diversifying its economy and focusing on sectors such as finance, real estate, and technology. This has resulted in a more stable and resilient economy. While the UAE's economy is affected by fluctuations in oil prices, we see the positive momentum continuing from 2022 into the 1st half of 2023.

Global inflation has been on the rise in recent times, driven by various factors such as supply chain disruptions, increased consumer demand, and higher energy prices. Whilst the risk of a deep global recession seems to be receding, we continue to proactively monitor the risks to the global economy and their impact on our customers and business. We are particularly watchful towards emerging markets that may be vulnerable to the impacts of inflation and high energy prices.

As we move forward, we will be focusing on three key areas to drive growth and transformation in this era of change: Innovation; driven by the technology landscape, growing reliance on AI with changing customer demands and expectations. Sustainability; through advocating for sustainable policies and practices as well as contributing to a more sustainable future. We recognize that our actions have significant impact on the world around us and we are committed to using our resources and expertise to make a positive difference. Finally, our third area of growth, and also our most important, *Customer Experience*, which has become a key differentiator in the banking industry and a critical factor in attracting and retaining customers. We understand that customers are increasingly looking for banks that provide seamless, convenient, and personalized services. Moving forward, we will continue to focus on customer experience as a key area of growth. We believe that it is a critical component of our long-term success.

We are confident that our investment in these areas will not only benefit our shareholders' returns & profitability, but will also help lead us in our journey to becoming a digital bank with a human touch while positively contributing to the UAE economy and supporting our customers in their financial wellbeing and financial planning.

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Mohamed Omran Alshamsi
Chairman

13 February 2022

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C)

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of The National Bank of Ras Al-Khaimah (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2022;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the consolidated financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the International Code of Ethics for Professional Accountants (including International independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates. We have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code.



Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Our audit approach

Overview

Key Audit Matters

- Measurement of Expected Credit Losses

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the consolidated financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses ("ECL")	
The Group applies ECL on all its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.	We performed the following audit procedures on the measurement of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2022: ➤ We tested the completeness and accuracy of the data used in the calculation of ECL. ➤ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria.

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of such collateral. The Group's impairment policy under IFRS 9 is presented in Note 3 to the consolidated financial statements. Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions in the staging criteria applied to the financial instruments as well as in developing ECL models for calculating its impairment provisions.	➤ We involved our internal experts to assess the following areas: • Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. • ECL modelling methodology and calculations used to compute the probability of default (PD), loss given default (LGD), and exposure at default (EAD) for the Group's classes of financial assets. • Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk. • For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral. ➤ For the Stage 3 corporate credit portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit files. For the Stage 3 retail credit portfolio, assumptions were independently assessed for each product category and an independent view was formed on the levels of provisions recognised at each category level. ➤ We assessed the consolidated financial statement disclosures with IFRS 7 and IFRS 9.

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Other information

The Directors are responsible for the other information. The other information comprises the annual report of the Group (but does not include the consolidated financial statements and our auditor's report thereon). We obtained the Directors' report to the shareholders prior to the date of this auditor's report and the remaining information of the annual report is expected to be made available to us after that date.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining information of the annual report of the Group, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of management and those charged with governance for the consolidated financial statements

The directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015 as amended, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.



Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Independent auditor's report to the shareholders of The National Bank of Ras Al-Khaimah (P.S.C) (continued)

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. 32 of 2021, we report that:

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. 32 of 2021;
- (iii) the Group has maintained proper books of account;
- (iv) the financial information included in the Directors' report to the shareholders is consistent with the books of account of the Group;
- (v) note 35 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;
- (vi) Based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the year ended 31 December 2022 any of the applicable provisions of the UAE Federal Law No. 32 of 2021 or in respect of the Bank, its Articles of Association which would materially affect its activities or its financial position as at 31 December 2022; and
- (vii) note 45 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2022.

Further, as required by the Article 114 of the Decretal Federal Law No. (14) of 2018, we report that we have obtained all the information and explanations we considered necessary for the purpose of our audit.

PricewaterhouseCoopers
13 February 2023

Rami Sarhan
Registered Auditor Number 1152
Place: Dubai, United Arab Emirates

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2022

	Notes	2022 AED'000	2021 AED'000 (Restated)
ASSETS			
Cash and balances with UAE Central Bank	4	4,713,892	3,894,068
Due from other banks, net	5	11,456,321	8,428,854
Investment securities measured at fair value	7	4,242,242	4,898,867
Investment securities measured at amortised cost	7	7,221,806	4,567,056
Loans and advances, net	6	36,071,267	33,563,247
Insurance contract assets and receivables, net	8	280,928	362,491
Customer acceptances		145,973	67,568
Other assets	9	1,434,125	806,165
Property and equipment	11	454,134	461,990
Right-of-use assets	36	112,657	134,424
Goodwill and intangible assets	10	370,497	398,663
Total assets		66,503,842	57,583,393
LIABILITIES AND EQUITY			
LIABILITIES			
Due to other banks	12	6,191,834	3,174,223
Deposits from customers	13	44,871,310	38,926,775
Customer acceptances		145,973	67,568
Debt securities issued and other long term borrowings	14	3,999,743	5,274,326
Insurance contract liabilities and payables	15	464,491	477,847
Other liabilities	16	1,702,471	1,150,212
Lease liabilities	37	102,912	130,600
Total liabilities		57,478,734	49,201,551
EQUITY			
Share capital	17	1,676,245	1,676,245
Legal reserve	18	950,431	950,431
Retained earnings		3,395,839	2,584,864
Other reserves	19	2,975,326	3,131,076
Equity attributable to owners of the Bank		8,997,841	8,342,616
Non-controlling interests	20	27,267	39,226
Total equity		9,025,108	8,381,842
Total Liabilities and Equity		66,503,842	57,583,393

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Mohamed Omran Alshamsi
Chairman

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Raheel Ahmed
Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS FOR THE YEAR ENDED 31 DECEMBER 2022

	Notes	2022 AED'000	2021 AED'000
Interest income	21	2,486,834	1,971,674
Interest expense	21	(412,465)	(197,358)
Net interest income		2,074,369	1,774,316
Income from Islamic financing	22	506,300	454,816
Distribution to depositors	22	(91,320)	(60,701)
Net income from Islamic financing		414,980	394,115
Net interest income and net income from Islamic financing		2,489,349	2,168,431
Net fees and commission income	23	658,159	686,902
Foreign exchange & derivative income		218,343	160,774
Net insurance underwriting profit	24	7,196	38,717
Investment income	25	7,592	80,328
Other operating income		71,208	95,386
Non-interest income		962,498	1,062,107
Operating income		3,451,847	3,230,538
General and administrative expenses	26	(1,484,392)	(1,395,575)
Operating profit before provision for credit loss		1,967,455	1,834,963
Provision for credit loss, net	30	(804,018)	(1,076,663)
Profit for the year		1,163,437	758,300
Attributed to:			
Owners of the Bank		1,170,701	756,125
Non-controlling interests	20	(7,264)	2,175
Profit for the year		1,163,437	758,300
Earnings per share:			
Basic and diluted in AED	27	0.70	0.45

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 AED'000	2021 AED'000
Profit for the year	1,163,437	758,300
Other comprehensive income:		
<u>Items that will not be reclassified subsequently to profit or loss:</u>		
Changes in fair value of financial assets measured at fair value through other comprehensive income, (equity instruments)	(24,211)	90,247
Re-measurements of post-employment benefit obligations	4,605	2,832
Profit on sale of equity investments held at fair value through other comprehensive income	17,429	980
<u>Items that may be reclassified subsequently to profit or loss:</u>		
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (debt instruments)	(112,997)	(3,880)
Profit on sale of debt instruments transferred to profit and loss	(8,246)	(48,087)
Net changes in fair value arising from cash flow hedges	(17,581)	(10,056)
Other comprehensive (loss)/income for the year	(141,001)	32,036
Total comprehensive income for the year	1,022,436	790,336
Attributed to:		
Owners of the Bank	1,032,380	788,407
Non-controlling interests	(9,944)	1,929
Total comprehensive income for the year	1,022,436	790,336

The accompanying notes form an integral part of these consolidated financial statements.

Classification: RAKBANK-Public

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital AED'000	Legal reserve AED'000	Retained earnings AED'000	Other reserves AED'000	Equity attributable to owners of the Bank AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2021	1,676,245	950,431	2,079,275	3,099,695	7,805,646	39,312	7,844,958
Profit for the year	-	-	756,125	-	756,125	2,175	758,300
Other comprehensive income / (loss)	-	-	901	31,381	32,282	(246)	32,036
Total comprehensive income for the year	-	-	757,026	31,381	788,407	1,929	790,336
Dividend paid	-	-	(251,437)	-	(251,437)	(2,015)	(253,452)
At 31 December 2021	1,676,245	950,431	2,584,864	3,131,076	8,342,616	39,226	8,381,842
Balance at 1 January 2022	1,676,245	950,431	2,584,864	3,131,076	8,342,616	39,226	8,381,842
Profit /(loss) for the year	-	-	1,170,701	-	1,170,701	(7,264)	1,163,437
Other comprehensive income / (loss)	-	-	17,429	(155,750)	(138,321)	(2,680)	(141,001)
Total comprehensive income / (loss) for the year	-	-	1,188,130	(155,750)	1,032,380	(9,944)	1,022,436
Dividend paid	-	-	(377,155)	-	(377,155)	(2,015)	(379,170)
At 31 December 2022	1,676,245	950,431	3,395,839	2,975,326	8,997,841	27,267	9,025,108

The accompanying notes form an integral part of these consolidated financial statements.

Classification: RAKBANK-Public
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2022

	2022 AED'000	2021 AED'000 (Restated)
<i>Cash flows from operating activities</i>		
Profit for the year	1,163,437	758,300
Adjustments:		
Provision for credit losses, net	804,018	1,076,663
Depreciation and amortisation of property and equipment and intangibles	118,555	127,273
Depreciation of Right-of-use assets	29,696	29,688
Interest cost on lease liability	5,387	4,880
Gain on rent concessions due to COVID-19	-	(1,508)
Loss on disposal of property and equipment	(34)	(13,163)
Amortization of discount relating to investments securities	(26,824)	(73,674)
Gain on sale of investment securities measured at fair value through OCI	(8,246)	(48,086)
Gain on sale of investment securities held through profit or loss	(3,172)	(5,218)
Gain on sale of investment securities held at amortized cost	-	(1,157)
Net changes in fair value arising from hedge and forex revaluation	301,044	90,875
Forex value loss on foreign currency provision held	635	-
Fair value change on FVTPL investment securities	22,357	(9,353)
Amortization of discount of debt securities	10,544	5,562
Changes in operating assets and liabilities	2,417,397	1,941,082
(Increase)/decrease in deposits with the UAE Central Bank	(150,799)	752,110
Increase in due from other banks with original maturities of three month or over	(2,709,909)	(1,357,305)
Increase in loans and advances, net	(3,116,338)	(4,589,305)
Decrease/(increase) in insurance contract assets & receivables	72,915	(82,608)
(Increase)/decrease in other assets	(727,260)	528,731
Increase in due to other banks	3,017,611	1,106,462
Increase in deposits from customers	5,944,535	1,982,451
(Decrease)/increase in insurance contract liabilities and payables	(13,356)	47,452
Increase/(decrease) in other liabilities, goodwill and customer acceptances	598,027	(562,243)
Net cash generated/(used in) from operating activities	5,332,822	(233,173)
<i>Cash flows from investing activities</i>		
Purchase of investment securities	(8,989,148)	(8,465,871)
Proceeds from maturity/disposal of investment securities	6,426,456	7,015,879
Purchase of property and equipment and intangible assets	(82,585)	(53,592)
Proceeds from disposal of property and equipment	86	41,148
Net cash used in investing activities	(2,645,191)	(1,462,436)
<i>Cash flows from financing activities</i>		
Dividends paid	(379,170)	(253,452)
Payment for rentals on lease contracts	(31,577)	(22,778)
Payment of debt security and other borrowings	(1,272,273)	(848,362)
Issue of debt security and other borrowings	-	2,508,702
Net cash (used in)/generated from financing activities	(1,683,020)	1,384,110
Net increase /(decrease) in cash and cash equivalents	1,004,612	(311,499)
Cash and cash equivalents, beginning of the year	3,324,614	3,636,113
Cash and cash equivalents, end of the year (Note 33)	4,329,226	3,324,614

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

1. Incorporation and principal activities

The National Bank of Ras Al-Khaimah (P.S.C.) (the “Bank”) is a public shareholding company incorporated in the Emirate of Ras Al-Khaimah in the United Arab Emirates (“UAE”). The head office of the Bank is located at the National Bank of Ras Al-Khaimah building, Al Rifa area, Exit No. 129, Sheikh Mohammed Bin Zayed Road, Ras Al-Khaimah, UAE.

The Bank is engaged in providing retail, commercial banking and treasury services through a network of twenty branches (2021: twenty-seven) in the UAE. The Bank is controlled by the Government of Ras Al-Khaimah by majority of voting rights.

At 31 December 2022, The National Bank of Ras Al-Khaimah (P.S.C.) comprises the Bank and seven subsidiaries (together referred to as the “Group”). The consolidated financial statements for the year ended 31 December 2021 comprises the Bank and following direct subsidiaries:

<i>Subsidiary</i>	<i>Authorized & Ownership issued capital interest</i>	<i>Incorporated</i>	<i>Principal Activities</i>	
Ras Al Khaimah National Insurance Company PSC	AED 121.275 million	79.23%	UAE	Underwriting all types of Insurance business.
BOSS FZCO	AED 500,000	80%*	UAE	Back office support services to the Bank.
RAK Technologies FZCO	AED 500,000	80%*	UAE	Technological support services to the Bank.
Rakfunding Cayman Limited	Authorized USD 50,000 Issued USD 100	100%	Cayman Island	To facilitate the issue Euro medium term notes (EMTN) under the Bank’s EMTN program.
Rak Global Markets Cayman Limited	Authorized USD 50,000 Issued USD 1	100%	Cayman Island	To facilitate Treasury transactions.
RAK Financial Services Limited**	USD 1,300,000	100%	Dubai International Financial Centre, UAE	Arranging and advising on Financial products, Investments and custody.
Protego Insurance Brokers L.L.C. ***	AED 3,000,000	100%	UAE	Insurance brokerage

*These represent legal ownership of the Bank. However, beneficial ownership is 100% as the remaining interest is held by a related party on trust and for the benefit of the Bank.

** RAK Financial Services Limited was incorporated under Dubai International Financial Centre (“DIFC”). DIFC’s approval for commencement of business and capital infusion was received in June 2022 and capital of USD 1.3 million was subscribed during June 2022.

*** Protego Insurance Brokers L.L.C is registered under the commercial license issued by Government of Dubai, Economy and tourism department in July 2022. The company received regulatory approval in August 2022 from UAE central Bank.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****2. Application of new and revised International Financial Reporting Standards (“IFRS”)****2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements**

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in these consolidated financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

<i>Title</i>	<i>Key requirements</i>	<i>Effective date</i>
Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16	The amendment to IAS 16 Property, Plant and Equipment (PP&E) prohibits an entity from deducting from the cost of an item of PP&E any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is ‘testing whether the asset is functioning properly’ when it assesses the technical and physical performance of the asset. The financial performance of the asset is not relevant to this assessment. Entities must disclose separately the amounts of proceeds and costs relating to items produced that are not an output of the entity’s ordinary activities.	1 January 2022
Reference to the Conceptual Framework – Amendments to IFRS 3	Minor amendments were made to IFRS 3 Business Combinations to update the references to the Conceptual Framework for Financial Reporting and to add an exception for the recognition of liabilities and contingent liabilities within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and Interpretation 21 Levies. The amendments also confirm that contingent assets should not be recognised at the acquisition date.	1 January 2022
Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37	The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts. Before recognising a separate provision for an onerous contract, the entity recognises any impairment loss that has occurred on assets used in fulfilling the contract.	1 January 2022

2. Application of new and revised International Financial Reporting Standards (“IFRS”)

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The Group has not yet applied the following new and revised IFRSs that have been issued but are not yet effective:

<i>New and revised IFRSs</i>	<i>Effective for annual periods beginning on or after</i>
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IFRS 17 Insurance Contracts	January 1, 2023
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IFRS 17 requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2023.

Amendments to IAS 1, Presentation of financial statements’ on classification of liabilities - These narrow-scope amendments to IAS 1, ‘Presentation of financial statements’, clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the ‘settlement’ of a liability. January 1, 2023

Disclosure of accounting policies – Amendments to IAS 1 and IFRS Practice Statement 2, The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. The amendments define what is ‘material accounting policy information’ and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information. 1 January 2023

Definition of accounting estimates – Amendments to IAS 8, The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. 1 January 2023

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s consolidated financial statements as and when they are applicable and adoption of these new standards, interpretations and amendments. The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

Classification: RAKBANK-Public

3. Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board ("IASB") and applicable requirements of the laws of the United Arab Emirates ("UAE").

The UAE Federal Decree Law No. 32 of 2021 ("Companies Law") which was issued on 20 September 2021 and came into effect on 2 January 2022, The Bank had 12 months from 2 January 2022 to comply with its provisions. The changes in the law have duly been reflected in articles and memorandum of the Bank and is in the process of regulatory approvals.

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments, including derivatives, investments at fair value which are measured at fair value and the obligation related to employees end of service benefit, which is recognised at the present value of future obligations using the Projected Unit Credit Method. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The Group's consolidated statement of financial position is not presented using a current / non-current classification. However, the following balances would generally be classified as current: cash and balances with UAE Central Bank and customer acceptances. The following balances would generally be classified as non-current: property and equipment and goodwill. The following balances are of mixed nature (including both current and non-current portions): due from other banks - net, loans and advances – net, investment securities measured at fair value, investment securities measured at amortised cost, insurance contract assets receivables – net, other assets, right-of-use assets, due to other banks, deposits from customers, debt securities issued and other long term borrowings, insurance contract liabilities and payables, other liabilities and lease liabilities.

(b) Consolidation

These consolidated financial statements incorporate the financial statements of the Bank and entities controlled by the Bank and its subsidiaries. Control is achieved when the Bank:

- *has power over an investee,*
- *is exposed, or has rights, to variable returns from its involvement with the investee, and*
- *has the ability to use its power over the investee to affect the amount of the investor's returns.*

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

3. Significant accounting policies (continued)

(b) Consolidation (continued)

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and ceases when the Bank loses control over the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement from the date the Bank gains control until the date when the Bank ceases to control the subsidiary.

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interest in existing subsidiaries

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Bank.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9: Financial Instruments or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. Significant accounting policies (continued)

(c) Islamic financing

The Group engages in Shari'ah compliant Islamic banking activities through various Islamic instruments such as Murabaha, Salam, Mudaraba, and Wakala. The accounting policy for initial recognition, subsequent measurement and derecognition of Islamic financial assets and liabilities are as per Note 3(e).

i) Murabaha financing

A sale contract whereby the Group sells to a customer commodities and other assets at an agreed upon profit mark up on cost. The Group purchases the assets based on a promise received from customer to buy the item purchased according to specific terms and conditions. Profit from Murabaha is quantifiable at the commencement of the transaction. Such income is recognised as it accrues over the period of the contract on effective profit rate method on the balance outstanding.

ii) Salam

Bai Al Salam is a Sale contract where the Customer (Seller) undertakes to deliver/supply a specified tangible asset to the Group (Buyer) at mutually agreed future date(s) in exchange for an advance price fully paid on the spot by the buyer.

Revenue on Salam financing is recognised on the effective profit rate basis over the period of the contract, based on the Salam capital outstanding.

iii) Mudaraba

A contract between the Group and a customer, whereby one party provides the funds (Rab Al Mal-customer) and the other party (the Mudarib- the Group) invests the funds in a project or a particular activity and any profits generated are distributed between the parties according to the profit shares that were pre-agreed in the contract. The Mudarib would bear the loss in case of default, negligence or violation of any of the terms and conditions of the Mudaraba, otherwise, losses are borne by the Rab Al Mal.

iv) Wakala

An agreement between the Group and customer whereby one party (Rab Al Mal-principal) provides a certain sum of money to an agent (Wakil), who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala. The Group may be Wakil or Rab Al Mal depending on the nature of the transaction.

Estimated income from Wakala is recognised on an accrual basis over the period, adjusted by actual income when received. Losses are accounted for on the date of declaration by the agent.

3. Significant accounting policies (continued)

(c) Islamic financing (continued)

v) Ijara

Ijara financing is a finance lease agreement whereby the Group (lessor) leases an asset based on the customer's (lessee) request and promise to lease the assets for a specific period in lieu of rental instalments. Ijara ends in transferring the ownership of the asset to the lessee at the end of the lease inclusive of the risks and rewards incident to an ownership of the leased assets. Ijara assets are stated at amounts equal to the net investment outstanding in the lease including the income earned thereon less impairment provisions.

(d) Business combination and goodwill

Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquire (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holder to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

3. Significant accounting policies (continued)

(d) Business combination and goodwill (continued)

Business combination (continued)

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IFRS 9 with the corresponding gain or loss being recognised in profit and loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in consolidated statement of comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Goodwill

Goodwill arising of an acquisition of a business combination is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit might be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in the subsequent periods.

3. Significant accounting policies (continued)

(d) Business combination and goodwill (continued)

Goodwill (continued)

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

(e) Classification of financial assets and financial liabilities

Financial assets

On initial recognition, a financial asset is classified as measured: at amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit and Loss (FVTPL). A financial asset is measured at amortised cost if it meets both the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument -by-instrument basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Group may irrevocably designate a financial asset that meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Financial liabilities

In both the current period and prior period, financial liabilities are classified as subsequently measured at amortised cost, except for:

3. Significant accounting policies (continued)

(e) Classification of financial assets and financial liabilities (continued)

Financial liabilities (continued)

- Financial liabilities at fair value through profit or loss: the classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains and losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in fair value of the financial liability that is attributable to the changes in credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains or losses attributable to changes in the credit risk of the liability are also presented in the profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition or when the continuing involvement approach applies. When the transfer of financial assets did not qualify for derecognition, a financial liability is recognised for the consideration received for the transfer; and
- Financial guarantee contracts and loan commitments.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- The stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

3. Significant accounting policies (continued)

(e) Classification of financial assets and financial liabilities (continued)

Assessment whether contractual cash flows are solely payments of principal and interest ("SPPI Test")

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

In making the assessment, the Group considers:

- (a) Contingent events that would change the amount and timing of cash flows;
- (b) Leverage features;
- (c) Prepayment and extension terms;
- (d) Terms that limit the Group's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- (e) Features that modify consideration of the time value of money - e.g. periodical reset of interest rate.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Group changes its business model for managing financial assets.

Derecognition

Any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as FVOCI is not recognised in profit or loss account on derecognition of such securities.

(f) Measurement of financial assets and financial liabilities

Investment securities

The investment securities' caption in the statement of financial position includes:

- debt investment securities measured at amortised cost; these are initially measured at fair value plus incremental direct transaction costs, and subsequently at their amortised cost using the effective interest method;
- debt and equity investment securities measured at FVTPL or designated as at FVTPL; these are at fair value with changes recognised immediately in profit or loss;
- debt securities measured at FVOCI; and equity investment securities designated as at FVOCI - Equity securities which are not held for trading and which the group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the group considers this classification to be more relevant.

Classification: RAKBANK-Public

3. Significant accounting policies (continued)

(f) Measurement of financial assets and financial liabilities (continued)

Investment securities (continued)

For debt securities measured at FVOCI, gains and losses are recognised in OCI, except for the following, which are recognised in profit or loss in the same manner as for financial assets measured at amortised cost.

- Interest revenue using the effective interest method
- ECL and reversals, and
- Foreign exchange gains and losses.

When debt security measured at FVOCI is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss.

The Group elects to present in OCI changes in the fair value of certain investments in equity instruments that are not held for trading. The election is made on an instrument-by-instrument basis on initial recognition and is irrevocable.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognised in profit or loss. Dividends are recognised in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognised in OCI. Cumulative gains and losses recognised in OCI are transferred to retained earnings on disposal of an investment.

Financial liabilities

Financial liabilities (including customer deposits and due to other banks, repurchase agreements with banks, and debt securities issued and other long term borrowings) are initially recognised as fair value and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

3. Significant accounting policies (continued)

(f) Measurement of financial assets and financial liabilities (continued)

Financial liabilities (continued)

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

When replacing an existing debt with a new debt from a new lender, the existing debt would be de-recognized in the financial statements, with the difference between the carrying amount and the fair value of the consideration paid recognized in profit or loss. However, when modifying or exchanging a debt while keeping the original lender, the International Financial Reporting Standards (IFRS) have specific guidance on whether the transaction results in a de-recognition or is accounted for differently. This analysis is driven by the question whether the modification is “substantial” or whether the original debt has been replaced by another debt with “substantially” different terms.

(g) Impairment

Measurement of ECL

The Group recognises loss allowances for expected credit losses (ECLs) on the following financial instruments that are not measured at FVTPL:

- Due from other banks;
- Debt investment securities carried at FVOCI and amortised cost;
- Loans and advances to customers;
- Insurance assets and receivables;
- Customer acceptances and other financial assets;
- Loan commitments; and
- Financial guarantees and contracts.

No impairment loss is recognised on equity investments.

IFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarised below:

Stage 1: When there has not been a Significant Increase in Credit risk (SICR) since its initial recognition, an amount equal to 12 months Expected Credit Loss (ECL) is recorded. 12-month ECL is the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. For those instruments with a remaining maturity of less than 12 months, a probability of default corresponding to remaining term to maturity is used.

Stage 2: When a financial instrument shows a Significant Increase in Credit Risk (SICR) since its initial recognition, it is moved to Stage 2 and an amount equal to Lifetime ECL is recorded against these financial instruments. Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument.

3 Significant accounting policies (continued)

(g) Impairment (continued)

Measurement of ECL (continued)

Stage 3: Financial instruments considered as credit impaired are moved to Stage 3 and amount equal to Lifetime ECL is recorded against these financial instruments.

The Group employs statistical models for ECL calculations. For measuring ECL under IFRS 9, the key inputs are the term structure of the following:

- Probability of default (PD);
- Loss Given Default (LGD); and
- Exposure at Default (EAD).

These parameters are derived from the Group's internally developed statistical models or external data, and other historical data. These are adjusted to reflect forward-looking information. Additionally, the Group has elaborate review process to adjust the ECL numbers for the factors not being captured in the model, as a part of Management Overlay.

Summary of statistical parameters/inputs are as follows:

- PD – The probability of default is an estimate of the likelihood of default over a given time horizon.
- EAD – The exposure at default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date upto default date.
- LGD – The loss given default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and expect recovery including expected amount from sale of collateral. It is usually expressed as a percentage of the EAD.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Group if the commitment is drawn down and the cash flows that the Group expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Group expects to recover.
- The Group measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics (Retail portfolio). The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original interest rate whether it is measured on an individual basis or a collective basis.

3. Significant accounting policies (continued)

(g) Impairment (continued)

Credit-impaired financial assets

A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. Evidence of credit-impairment includes observable data about the following events:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the disappearance of an active market for a security because of financial difficulties; or
- the purchase of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event-instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Group assesses whether debt instruments that are financial assets measured at amortised cost or FVOCI are credit-impaired at each reporting date. To assess if sovereign and corporate debt instruments are credit impaired, the Group considers factors such as timing of coupon payments, credit ratings and the ability of the borrower to raise funding.

A loan is considered credit-impaired when a concession is granted to the borrower due to a deterioration in the borrower's financial condition, unless there is evidence that as a result of granting the concession the risk of not receiving the contractual cash flows has reduced significantly and there are no other indicators of impairment. For financial assets where concessions are contemplated but not granted the asset is deemed credit impaired when there is observable evidence of credit-impairment including meeting the definition of default. The definition of default includes unlikelihood to pay indicators and a backstop if amounts are overdue for 90 days or more.

Purchased or originated credit-impaired (POCI) financial assets

POCI financial assets are treated differently because the asset is credit-impaired at initial recognition. For these assets, the Group recognises all changes in lifetime ECL since initial recognition as a loss allowance with any changes recognised in profit or loss. A favourable change for such assets creates an impairment gain.

Definition of default

Group defines a non-retail, retail and investment instrument as in default, which is largely aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is 90 (or more) days past due on its contractual payments.

3. Significant accounting policies (continued)

(g) Impairment (continued)

Qualitative criteria:

The bank classifies the loans as Non-performing (NPA) when:

- Such loans, which may lead to incurring of some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security.
- Loans whose full recovery seems doubtful on the basis of information available, leading, generally, to a loss of part of these loans (when the financial position of the customer and securities are not sufficient).
- Loans where bank has exhausted all courses of action available but failed to recover anything, or where there is a possibility that nothing shall be recovered.

Expected life

For instruments in Stage 2 or Stage 3, loss allowances reflect expected credit losses over the expected remaining lifetime of the instrument. For most instruments, the expected life is limited to the remaining contractual life. An exemption is provided for certain instruments with the following characteristics: (a) the instrument includes both a loan and undrawn commitment component; (b) the contractual ability to demand repayment and cancel the undrawn commitment is present; and (c) the exposure to credit losses is not limited to the contractual notice period. For products in scope of this exemption, the expected life may vary from remaining contractual life and is the period over which our exposure to credit losses is not mitigated by our normal credit risk management actions. This period varies by product and risk category and is estimated based on our historical experience with similar exposures and consideration of credit risk management actions taken as part of our regular credit review cycle like credit cards, overdraft balances, etc. Determining the instruments in scope for this exemption and estimating the appropriate remaining life based on our historical experience and credit risk mitigation practices requires significant judgment.

Modification of financial assets

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. Where this happens, the Group assesses whether or not the new terms are substantially different to the original terms. The Group does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share / equity based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in the interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

3. Significant accounting policies (continued)

(g) Impairment (continued)

Modification of financial assets (continued)

If the terms are substantially different, the Group derecognizes the original financial asset and recognizes a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Group also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognized in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in the derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

Derecognition of Financial Assets

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control.

The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards.

These transactions are accounted for as 'pass through' transfers that result in derecognition if the Group:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (shares and bonds) furnished by the Group under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Group retains substantially all the risks and rewards on the basis of predetermined repurchase price, and the criteria for de-recognition are therefore not met. This also applies to certain securitisation transactions in which the Group retain a subordinated residual interest.

3. Significant accounting policies (continued)**(g) Impairment (continued)*****Write-offs***

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the company. The Group categorises a retail loan or receivable for write off when a debtor fails to make contractual payments exceeding a certain number of days, and meets other pre-defined criteria as per bank's internal policy. As regards the non-retail loans, the write off of loans is done based on the individual assessment of these loans on a case to case basis. Where loans or receivables have been written off, the Group continues to engage in enforcement activity to attempt to recover the receivable due. Where recoveries are made, these are recognised in profit or loss.

Financial guarantees contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values. Subsequently they are measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amount of income recognised in accordance with the Group's revenue recognition policies. Customer acceptances

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset. Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

Curing period

The Group continues to monitor such financial instruments for a minimum probationary period of 12 months to confirm if the risk of default has decreased sufficiently before upgrading such exposure from Lifetime ECL (Stage 2) to 12 months ECL (Stage 1).

The Group is observing a probationary period of a minimum of 3 instalments (for repayments which are on a quarterly basis or shorter) and 12 months (in cases where instalments are on a longer frequency than quarterly) after the restructuring, before upgrading from Stage 3 to 2.

3. Significant accounting policies (continued)

(h) Derivatives and hedging

IFRS 9 expands the scope of hedged items and risks eligible for hedge accounting and aligns hedge accounting more closely with risk management. IFRS 9 envisions an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship.

If a hedging relationship ceases to meet the hedge effectiveness requirement relating to the hedge ratio under IFRS 9, but the risk management objective for that designated hedging relationship remains the same, the Bank shall adjust the hedge ratio of the hedging relationship so that it meets the qualifying criteria again.

Gains and losses arising from changes in the fair value of derivatives that are not the hedging instrument in a qualifying hedge are recognised as they arise in profit or loss. Gains and losses are recorded in income from trading activities except for gains and losses on those derivatives that are managed together with financial instruments designated at fair value; these gains and losses are included in 'Other Operating Income'.

(i) Due from/to other banks

Amounts due from/to banks are initially recognised at fair value and measured subsequently at amortised cost using the effective interest method. Impairment of amount due from banks is assessed as outlined in the accounting policy for financial instruments.

(j) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, money in current and call accounts and placements with original maturity of three months or less excluding the statutory deposit required to be maintained with the UAE Central Bank.

Customer acceptances

Acceptances arise when the Group is under an obligation to make payments against documents drawn under letters of credit. Acceptances specify the amount of money, the date and the person to which the payment is due. After acceptance, the instrument becomes an unconditional liability (time draft) of the Group and is therefore recognised as a financial liability in the consolidated statement of financial position with a corresponding contractual right of reimbursement from the customer recognised as a financial asset. Acceptances have been considered within the scope of IFRS 9 - Financial Instruments and are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3. Significant accounting policies (continued)

(k) Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments are disclosed in Note 32.

Fair value hedge

The fair value change on qualifying hedging instruments is recognised in profit or loss except when the hedging instrument hedges an equity instrument designated at FVOCI in which case it is recognised in OCI. The Group has not designated fair value hedge relationships where the hedging instrument hedges an equity instrument designated at FVOCI.

The carrying amount of a hedged item not already measured at fair value is adjusted for the fair value change attributable to the hedged risk with a corresponding entry in profit or loss. For debt instruments measured at FVOCI, the carrying amount is not adjusted as it is already at fair value, but the part of the fair value gain or loss on the hedged item associated with the hedged risk is recognised in profit or loss instead of OCI. When the hedged item is an equity instrument designated at FVOCI, the hedging gain/loss remains in OCI to match that of the hedging instrument.

Where hedging gains/losses are recognised in profit or loss, they are recognised in the same line as the hedged item.

The fair value adjustment to the carrying amount of hedged items for which the EIR method is used (i.e. debt instruments measured at amortised cost or at FVOCI) arising from the hedged risk is amortised to profit or loss commencing no later than the date when hedge accounting is discontinued.

3. Significant accounting policies (continued)

(k) Derivative financial instruments (continued)

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Amounts accumulated in cash flow hedge reserve are reclassified to profit or loss in the same period during which the hedged future cash flows affect profit or loss, in the same line in which the hedged cash flows are recognised. If the Group expects that all or a portion of the accumulated loss will not be recovered, then that amount is immediately reclassified to profit or loss.

The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised, or where the occurrence of the designated hedged forecast transaction is no longer considered to be highly probable. The discontinuation is accounted for prospectively. Any gain/loss recognised in OCI and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain/loss accumulated in equity is reclassified and recognised immediately in profit or loss.

(l) Debt securities issued

Debt issued is recognised initially at fair value, net of transaction costs incurred. After initial measurement, debt issued is subsequently measured at amortised cost using the effective interest rate. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

(m) Property and equipment

Land and buildings comprise branches, offices and certain residential premises purchased for occupation of management and staff. Property and equipment is stated at cost less accumulated depreciation and accumulated impairment. Cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent expenditures are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repair and maintenance costs are charged to the consolidated income statement during the financial period in which they are incurred.

3. Significant accounting policies (continued)**(m) Property and equipment (continued)**

Land is not depreciated as it is deemed to have an infinite life. Depreciation on other assets is calculated using the straight-line method to write down the cost of assets to their estimated residual values over their expected useful economic lives as follows:

	Years
Buildings	15 – 30
Computer equipment and software	2 -15
Furniture, fixtures and equipment	4 – 6
Leasehold improvements	2 – 6
Motor vehicles	2 – 4

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Capital work in progress is stated at cost and is transferred to the appropriate asset category when it is brought into use and is depreciated in accordance with the Group's accounting policy.

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposal of property and equipment are determined by comparing the sales proceeds to the carrying value of the asset disposed and are taken into account in determining operating income.

(n) Employee benefits**(i) Defined contribution plan**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in consolidated income statement in the periods during which services are rendered by employees. Pension contributions are made in respect of UAE national employees to the UAE General Pension and Social Security Authority in accordance with the UAE Federal Law No (7), 1999 for Pension and Social Security.

3. Significant accounting policies (continued)

(n) Employee benefits (continued)

(ii) Defined benefit plan

Provision is made for the end of service benefits due to non-UAE nationals in accordance with the UAE Labor Law for their periods of service up to the financial position date. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation. The provision arising is disclosed as 'provision for employees' end of service benefits' under other liabilities in the consolidated statement of financial position.

(iii) Short-term employee benefits

Short-term employee benefits obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

A provision is made for the estimated liability for employees' entitlements to annual leave and leave passage as a result of services rendered by the employees up to financial position date. This provision is included in other liabilities.

(o) Fiduciary assets

Assets and the income arising on the Group's fiduciary activities, where it acts in a fiduciary capacity such as nominee, trustee or agent, are excluded from these consolidated financial statements. Income earned by the Group from its fiduciary services is recognized in accordance with the accounting policy on fees and commission income.

(p) Share capital

(i) Share issue costs

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds.

(ii) Dividends on ordinary shares

Dividends on ordinary shares are recognized in equity in the period in which they are approved by the Group's shareholders.

3. Significant accounting policies (continued)

(q) Provisions and contingent liabilities

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset only if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Contingent liabilities, which include certain guarantees and letters of credit, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the Group's control; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated financial statements, unless they are remote.

(r) Deposits from customers

Deposits from customers are recognized initially at fair value, net of transaction costs incurred. Deposits from customers are subsequently carried at amortized cost using the effective interest method.

(s) Foreign currencies

Items included in the consolidated financial statements of the Group are measured using UAE Dirhams which is the currency of the primary economic environment in which the Group operates ('functional currency'). The consolidated financial statements are presented in UAE Dirhams. Foreign currency transactions are translated into the UAE Dirham at the rate ruling on the transaction date. Monetary assets and liabilities denominated in foreign currencies are re-translated into UAE Dirhams at the rates ruling at the consolidated statement of financial position date. Any resultant gains or losses are accounted for in the consolidated income statement other than for items presented in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

(t) Interest income and expense

Interest income and expense are recognized in the consolidated income statement for all instruments measured at amortized cost using the effective interest method. Interest earned whilst holding investment securities is reported in interest income in the consolidated income statement.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

3. Significant accounting policies (continued)**(t) Interest income and expense (continued)**

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(u) Fee and commission income

Fees and commissions, other than loan arrangement fees, are generally recognized when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred and recognized as an adjustment to the effective interest rate on the loan. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Fees earned on the Bank's fiduciary activities are recognized over the period in which the service is provided. The same principle is applied to custody services that are continuously provided over an extended period of time.

(v) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

(w) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision-maker. The Chief Operating Decision-maker is the person or group that allocates resources to and assesses the performance of the operating segments of an entity. All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated. Income and expenses directly associated with each segment are included in determining business segment performance. In accordance with IFRS 8 Operating Segments, the Group has the following business segments: retail banking, Wholesale banking, business banking, treasury and Insurance business.

(x) Intangible assets

Intangible assets acquired in a business combination are measured on initial recognition at cost, which is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated income statement in the expense category consistent with the function of the intangible asset.

3. Significant accounting policies (continued)

(x) Intangible assets (continued)

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

(i) License

The license represents the right to conduct insurance operations, which is granted by the relevant insurance regulator. This license is assessed as having an indefinite useful life and included in goodwill.

(ii) Customer relationships

The value of customer relationships represents the value of future cash flows expected from renewals and the cross-selling of new products to customers known and identified at the time of the acquisition and will be amortized on a straight line basis over the estimated useful life which is four years.

(y) Insurance contracts

Insurance and reinsurance contracts held

Insurance contracts held

The Group, through its insurance subsidiary RAKNIC, issues insurance contracts. Insurance contracts are those contracts when the Group (the insurer) has accepted the significant insurance risk from another party (policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. As a general guideline, the Group determines whether it has significant insurance risk by comparing benefits paid with benefits payable if the insured event did not occur. An insurance contract can also transfer financial risk.

3. Significant accounting policies (continued)

(y) Insurance contracts (continued)

Insurance and reinsurance contracts held (continued)

Insurance and other receivables

Insurance and other receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less impairment losses. A provision for impairment of receivables is established in accordance with the policy outlined in note 3 (g).

The carrying amount of the receivable is reduced through the use of an allowance account, and the amount of the loss is recognized in the consolidated income statement within provision for credit loss. When a receivable is uncollectible, it is written off against the allowance account for that receivable. Subsequent recoveries of amounts previously written off are credited as other operating income in the consolidated income statement.

Deferred acquisition costs

The costs attributable to the acquisition of new business for insurance contracts and renewing existing contracts are capitalized as an intangible asset under Deferred Acquisition Costs (DAC). All other costs are recognized as expenses when incurred. DAC are subsequently amortized over the life of the contracts as premium is earned.

Classification

The Group issues contracts that transfer either insurance risk or both insurance and financial risks.

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder are classified as insurance contracts. Insurance risk is significant if an insured event could cause the Group to pay significant additional benefits due to happening of the insured event compared to its non-happening.

Insurance contracts may also transfer some financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract.

Contracts where insurance risk is not significant are classified as investment contracts.

Once a contract is classified as an insurance contract it remains classified as an insurance contract until all rights and obligations are extinguished or expired.

3. Significant accounting policies (continued)

(y) Insurance contracts (continued)

Insurance and reinsurance contracts held (continued)

Recognition and measurement

i. Premiums

Gross premiums written reflect business inception during the year, and exclude any fees and other amounts collected with and calculated based on premiums.

The earned position of premium is recognized as an income. Premiums are earned from the date of attachment of risk over the indemnity period and unearned premium is calculated using the basis described below.

ii. Unearned premium provision

Unearned premiums are computed using statistical models to spread premium written evenly over period of coverage and are at least equal to the minimum stipulated by the UAE Insurance Law.

Claims

Claims outstanding comprise provisions for the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expense reduced by expected salvage and other recoveries. Claims outstanding are assessed by reviewing individual reported claims. Provisions for claims outstanding are not discounted. The methods used, and the estimates made, are reviewed regularly. Provision is also made for any claims incurred but not reported ("IBNR") at the date of the consolidated statement of financial position on the basis of management estimates.

Liability adequacy test

At the end of each reporting period, the Group assesses whether its recognized insurance liabilities are adequate using current estimates of future cash flows under its insurance contracts. If that assessment shows that the carrying amount of its insurance liabilities is inadequate in the light of estimated future cash flows, the entire deficiency is immediately recognized in profit or loss and an unexpired risk provision is created.

Provision is made for premium deficiency arising from insurance contracts where the expected value of claims and expenses attributable to the unexpired periods of policies in force at the reporting date exceeds the unearned premiums provision and already recorded claim liabilities and attributable expenses in relation to such policies. The provision for premium deficiency is calculated by reference to classes of business which are managed together, after taking into account the future investment return on investments held to back the unearned premiums and claims provisions.

3. Significant accounting policies (continued)

(y) Insurance contracts (continued)

Insurance and reinsurance contracts held (continued)

Reinsurance

Contracts entered by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are classified as reinsurance contracts held. The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Assets, liabilities and income and expense arising from ceded reinsurance contracts are presented separately from the assets, liabilities, income and expense from the related insurance contracts because the reinsurance arrangements do not relieve the Group from its direct obligations to its policyholders.

Amounts due to and from reinsurers are accounted for in a manner consistent with the related insurance policies and in accordance with the relevant reinsurance contracts. Reinsurance premiums are deferred and expensed using the same basis as used to calculate unearned premium reserves for related insurance policies. The deferred portion of ceded reinsurance premiums is included in reinsurance assets.

Reinsurance assets are assessed for impairment at each reporting date. A reinsurance asset is deemed impaired if there is objective evidence, as a result of an event that occurred after its initial recognition, that the Group may not recover all amounts due, and that event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer. Impairment losses on reinsurance assets are recognised in the consolidated income statement in the period in which they are incurred.

Profit commission in respect of reinsurance contracts is recognised on an accrual basis

Reinsurance commission income

Reinsurance commission income received when the reinsurance premium is ceded based on the terms and percentages agreed with the reinsurers is recognised as deferred commission income ("DCI"). DCI is amortised over the terms of the policies as premium ceded to reinsurers is expensed

Insurance receivables and payables

Amounts due from and to policyholders, agents and reinsurers are financial instruments and are included in insurance receivables and payables, and not in insurance contract provisions or reinsurance assets.

Insurance contract provision and reinsurance assets

Insurance contract liabilities predominately contain unearned premium & outstanding claims. Insurance contract liabilities towards outstanding claims are made for all claims intimated to the Group and still unpaid at the statement of financial position date, in addition for claims incurred but not reported. The unearned premium considered in the insurance contract liabilities comprise the estimated proportion of the gross premiums written which relates to the periods of insurance subsequent to the consolidated statement of financial position date.

The reinsurers' portion towards the above outstanding claims, claims incurred but not reported and unearned premium is classified as reinsurance contract assets in the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

3. Significant accounting policies (continued)

(y) Insurance contracts (continued)

‘IFRS 17: Insurance Contracts’ transition

IFRS 17 disclosure requirements

IFRS 17, ‘Insurance contracts’ is applicable for annual reporting periods commencing on 1 January 2023 and the Group expects to first apply IFRS 17 on that date. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with direct participation features (“DPF”). The key objectives of IFRS 17 are comparable recognition and measurement of contracts in the scope of the standard, the recognition of insurance service results based on the services provided to the policyholder and provision of disclosures that will enable the users of the financial statements to assess the impact of these contracts on the financial position, financial results and cash flows of the entity. The standard distinguishes between the sources of profit and quality of earnings between insurance service results and insurance finance income and expense (reflecting the time value of money and financial risk).

There will be no redesignation of financial assets which were previously recognised when IFR9 ‘Financial instruments’ was applied.

The Group has engaged an independent consultant “the “Consultant” to assist with the implementation of the IFRS 17 project. The Consultant and members of staff from all departments have been actively involved in driving the project. Regular trainings have been provided to the Board on IFRS 17. Accounting policy papers, actuarial methodologies and disclosure requirements have been defined and are being implemented throughout the Group. The IFRS 17 project team remains up to date, and closely monitors, all technical developments from the IASB and industry to evaluate the effects of such developments. Where applicable, the policy and methodology papers are updated to reflect any changes in requirements.

The Group has made significant progress in the implementation of IFRS 17. However, the following still need to be finalised to complete the transition to IFRS 17. As such the impact assessment reported in these financial statements may change once the implementation is completed.

- Finalising of confidence level for explicit risk adjustment.
- Produce and request business sign-off, as well as external audit sign-off of transition balances.
- Finalise the layout and disclosure of the IFRS 17 compliant annual financial statements.
- Finalise the management reporting and key performance measures.
- Continue engaging with various stakeholders and business through various training initiatives.
- Finalise and implement future financial and data governance processes and accountabilities.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

3. Significant accounting policies (continued)

(y) Insurance contracts (continued)

‘IFRS 17: Insurance Contracts’ transition (continued)

Measurement model

Measurement will not be carried out at the level of individual contracts, but on the basis of groups of contracts. To allocate individual insurance contracts to groups of contracts, an entity first needs to define portfolios which include contracts with similar risks that are managed together. These portfolios are to be subdivided into groups of contracts on the basis of profitability and annual cohorts. IFRS 17 consists of 3 measurement models:

- The general measurement model, also known as the building block approach, consists of the fulfillment cash flows and the contractual service margin.
- The variable fee approach is a mandatory modification of the general measurement model regarding the treatment of the contractual service margin in order to accommodate direct participating contracts.
- The premium allocation approach is a simplified approach for the measurement of the liability for remaining coverage an entity may choose to use when the premium allocation approach provides a measurement which is not materially different from that under the general measurement model or if the coverage period of each contract in the group of insurance contracts is one year or less. Under the premium allocation approach, the liability for remaining coverage is measured as the amount of premiums received net of acquisition cash flows paid, less the net amount of premiums and acquisition cash flows that have been recognized in profit or loss over the expired portion of the coverage period based on the passage of time.

The measurement of the liability for incurred claims is identical under all three measurement models, apart from the determination of locked-in interest rates used for discounting. An explicit risk adjustment for non-financial risk is estimated separately from the other estimates for the liability for incurred claims. This risk adjustment represents compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk. The risk adjustment forms part of the fulfillment cash flows for a group of insurance contracts.

The Group has decided to apply the premium allocation approach (PAA) to all the insurance contracts that it issues and reinsurance contracts that it holds as this approach provides a measurement which is not materially different under general measurement model and because the coverage period for most of the insurance contracts are one year or less.

Insurance revenue and insurance service expenses are recognised in the statement of comprehensive income based on the concept of services provided during the period. The standard requires losses to be recognised immediately on contracts that are expected to be onerous. For insurance contracts measured under the PAA, it is assumed that contracts are not onerous at initial recognition, unless facts and circumstances indicate otherwise. The Group's focus is to grow a profitable and sustainable business and does not anticipate the recognition of onerous contracts except where the following have been identified:

3. Significant accounting policies (continued)

(y) Insurance contracts (continued)

'IFRS 17: Insurance Contracts' transition (continued)

Measurement model (continued)

- Relevant pricing decisions.
- Initial stages of a new business acquired where the underlying contracts are onerous.

Any other strategic decisions the Group considers appropriate

Accounting policy choices

The following table sets out the accounting policy choices adopted by the Group:

	IFRS 17 options	Adopted approach
Insurance acquisition cash flows	IFRS 17 allows an accounting policy choice of either expensing the insurance acquisition cash flows when incurred or amortizing them over the contract's coverage period, provided that the coverage period of each contract in the group at initial recognition is no more than one year.	The Group will expense its insurance acquisition cash flows for its insurance products line immediately upon payment.
Liability for Remaining Coverage ("LRC") adjusted for financial risk and time value of money	Where there is no significant financing component in relation to the LRC, or where the time between providing each part of the services and the related premium due date is no more than a year, an entity is not required to make an adjustment for accretion of interest on the LRC.	The Group will not adjust the LRC for insurance contracts issued and the remaining coverage for reinsurance contracts held for the effect of the time value of money, because insurance premiums are due within the coverage period of contracts, which is one year or less
Liability for Incurred Claims ("LIC") adjusted for time value of money	Where claims are expected to be paid within a year of the date that the claim is incurred, it is not required to adjust these amounts for the time value of money.	For all claims, the LIC will be adjusted for the time value of money.

3. Significant accounting policies (continued)

(y) Insurance contracts (continued)

'IFRS 17: Insurance Contracts' transition (continued)

Accounting policy choices (continued)

	IFRS 17 options	Adopted approach
Insurance finance income and expenses	IFRS 17 provides an accounting policy choice to recognise the impact of changes in discount rates and other financial variables in profit or loss or in OCI. The accounting policy choice (the PL or OCI option) is applied on a portfolio basis.	The Group will include all insurance finance income or expenses for the period in profit or loss.
Disaggregation of risk adjustment	An insurer is not required to include the entire change in the risk adjustment for non-financial risk in the insurance service result. Instead, it can choose to split the amount between the insurance service result and insurance finance income or expenses.	The Group will disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion which will be presented in insurance finance income or expenses and in insurance service result respectively.

Areas of significant judgements

The following are key judgements and estimates which the Group expects to apply as a result of IFRS 17

Discount rates

The bottom-up approach will be used to derive the discount rate. Under this approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium'). The risk-free rate was derived using swap rates available in the market denominated in the same currency as the product being measured. When swap rates are not available, highly liquid sovereign bonds with a AAA credit rating were used. Management uses judgment to assess liquidity characteristics of the liability cash flows.

3. Significant accounting policies (continued)

(y) Insurance contracts (continued)

'IFRS 17: Insurance Contracts' transition (continued)

Accounting policy choices (continued)

Risk adjustment

The Group will use Mack method or bootstrapping to determine its risk adjustment. The bootstrap effectively allows us to measure the uncertainty about the amount and timing of the cashflows that arise from non-financial risk since bootstrapping the triangles aims to illustrate the variability of the paid claims.

When considering non-financial risks this typically represents underwriting, expense and to some degree operational risk where the operational risk is specific to the insurance contract issued. For simplification purposes the risk adjustment only considers the underwriting risks as this is inherent in the bootstrapping calculation.

The management is currently assessing the appropriate confidence level.

Transition

The Group will apply IFRS 17 on the date of initial application, 1 January 2023, using full retrospective approach.

The Group has determined that reasonable and supportable information is available for all contracts in force at the transition date. In addition, as the contracts are eligible for the PAA, the Group has concluded that only current and prospective information will be required to reflect circumstances at the transition date, which made the full retrospective application practicable and, hence, the only available option for insurance contracts issued by the Group.

Accordingly, the Group will:

- identify, recognise and measure each company of insurance contracts and any assets for insurance acquisition cash flows as if IFRS 17 had always applied;
- derecognise any existing balances that would not exist if IFRS 17 had always applied; and
- recognise any resulting net difference in equity.

3. Significant accounting policies (continued)

(z) Right-of-use assets and lease liabilities

Lease liabilities

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate

Interest rate for discounting

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability
- any lease payments made at or before the commencement date less any lease incentives received
- any initial direct costs, and
- restoration costs.

Short-term leases and leases of low-value assets

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****4. Cash and balances with UAE Central Bank**

	2022	2021
	AED'000	AED'000
Cash in hand	711,362	740,644
Balances with the UAE Central Bank	109,379	111,072
Overnight Deposits with the UAE central Bank	1,700,000	1,000,000
Statutory deposit with the UAE Central Bank	2,193,151	2,042,352
	4,713,892	3,894,068

*The Central Bank of the UAE has prescribed reserve requirements on the deposits, 1% (31 December 2021: 1%) for time deposits and 7 % (31 December 2021: 7%) on current, saving, call and similar accounts. These are only available for day-to-day operations under certain specified conditions.

5. Due from other banks, net

	2022	2021
	AED'000	AED'000
Placements with other banks	514,066	380,635
Demand deposits	1,626,926	1,340,318
Banker's acceptances	3,958,875	3,400,933
Syndicated loans	3,664,294	2,823,719
Trade loans	1,724,013	464,635
Others	25,445	57,883
Total due from other banks	11,513,619	8,468,123
Provision for credit loss	(57,298)	(39,269)
Due from other banks, net	11,456,321	8,428,854

The below represents deposits and balances due from:

	2022	2021
	AED'000	AED'000
Banks in UAE	357,897	258,683
Banks outside UAE	11,155,722	8,209,440
Total due from other banks	11,513,619	8,468,123

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****6. Loans and advances, net**

	2022 AED'000	2021 AED'000 (Restated)
(a) Loans and advances:		
Retail banking loans	18,815,285	18,712,507
Wholesale banking loans	10,279,813	8,690,747
Business banking loans	9,049,221	8,053,201
Total loans and advances [Note 6(b)]	38,144,319	35,456,455
Provision for credit loss [Note 6(c)]	(2,073,052)	(1,893,208)
Net loans and advances	36,071,267	33,563,247

As at 31 December 2021, 'Loans and advances, net' have been restated with adjustment amounting to AED 1,279 million. For details as to the restatement refer to Note 44.

(b) Analysis of loans and advances:

Personal loans	5,545,961	5,481,178
Mortgage loans	7,670,327	7,221,862
Credit cards	2,196,406	2,115,034
Auto loans	400,301	383,499
RAK Business loans	3,404,286	3,056,201
Other Business banking loans	5,644,935	4,997,000
Wholesale banking loans	10,279,813	8,690,747
Other retail loans	3,002,290	3,510,934
Total loans and advances	38,144,319	35,456,455

(c) Movement in provision for credit losses:

Balance at the beginning of the year	1,893,208	2,159,442
Impairment allowance for the year [Note 6(d)]	702,030	1,160,648
Written-off during the year	(522,186)	(1,426,882)
Balance at the end of the year	2,073,052	1,893,208

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022**
(continued)**6. Loans and advances, net (continued)****(d) Provision for credit losses of loans and advances, net:**

	2022	2021
	AED'000	AED'000
Impairment allowance for the year	702,030	1,160,648
Net recovery during the year	(93,712)	(93,120)
	608,318	1,067,528

Net recovery mainly represents amounts subsequently recovered from fully written-off loans.

(e) Islamic financing assets:

The below table summarizes the Islamic financing assets that are part of loans and advances above:

	2022	2021
	AED'000	AED'000
<i>Islamic financing assets</i>		
Islamic retail financing assets	3,445,674	3,180,614
Islamic business banking assets	2,252,856	2,127,033
Islamic wholesale banking assets	412,679	589,682
Total Islamic financing assets	6,111,209	5,897,329
Provision for impairment	(394,217)	(399,390)
	5,716,992	5,497,939
<i>Analysis of Islamic financing assets</i>		
Islamic Salam personal finance	2,082,846	1,944,821
Islamic Auto Murabaha	38,586	46,225
Islamic business banking finance	2,252,856	2,127,033
Islamic Ijara Property Finance	1,278,451	1,140,783
Murabaha Islamic credit cards	43,995	47,329
Islamic wholesale banking	412,679	589,682
Islamic finance – other	1,796	1,456
	6,111,209	5,897,329

Classification: RAKBANK-Public

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

6. Loans and advances, net (continued)

(f) Movement in provision for credit losses - Islamic	2022	2021
	AED'000	AED'000
Balance at the beginning of the year	399,390	420,858
Impairment allowance for the year	119,548	281,150
Written-off during the year	(124,721)	(302,618)
Balance at the end of the year	394,217	399,390

7. Investment securities, net

	2022	2021
	AED'000	AED'000
Securities at fair value through other comprehensive income (FVOCI)		
Quoted equity securities	437,494	377,540
Unquoted equity securities	5,240	4,459
Quoted debt securities*	3,655,522	3,829,217
Unquoted debt securities	36,490	450,775
	4,134,746	4,661,991
Securities at fair value through profit or loss (FVPL)		
Quoted funds	66,071	131,577
Unquoted funds	41,425	43,842
Quoted debt securities	-	61,457
	107,496	236,876
Investment securities measured at fair value	4,242,242	4,898,867
Securities held at amortized cost		
Quoted debt securities*	7,163,089	4,423,773
Unquoted debt securities	115,841	168,223
	7,278,930	4,591,996
Provision for credit loss for Securities held at amortized cost	(57,124)	(24,940)
Investment securities measured at amortised cost	7,221,806	4,567,056
Net investment securities	11,464,048	9,465,923

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

7. Investment securities, net (continued)

*As at 31 December 2022, quoted debt securities with fair value of AED 3,046 million and carrying value of AED 3,135 million (31 December 2021: fair value of AED 1,336 million and carrying value AED 1,513 million) have been given as collateral against repo borrowings of AED 2,639 million (31 December 2021: AED 1,313 million).

During the year ended 31 December 2022, change in fair value of investment securities measured at FVPL resulted in loss of AED 22.4 million (31 December 2021: AED 9.4 million gain) and was recognised as investment loss/ income in the consolidated statement of profit or loss (Note 25).

During the year ended 31 December 2022, sale of amortised cost securities amounting to Nil (2021: AED 25.8 billion) resulted in Nil gain (31 December 2021: AED 1.2 million) and was recognised as investment income in the consolidated statement of profit or loss.

	2022 AED'000	2021 AED'000
<i>The composition of the investment portfolio by category is as follows:</i>		
Federal and local Government - UAE	2,605,832	1,188,494
Government related entity - UAE	862,482	957,344
Government - GCC	572,937	862,073
Government - other	850,247	1,400,826
Banks and financial institutions - UAE	635,725	550,208
Banks and financial institutions - GCC	1,014,027	451,666
Banks and financial institutions - other	1,827,012	1,499,567
Public limited companies - UAE	381,795	352,905
Public limited companies - GCC	716,984	611,922
Public limited companies - other	1,503,901	1,058,440
Total debt securities	10,970,942	8,933,445
Quoted equity securities	437,494	377,540
Quoted funds	66,071	131,577
Unquoted funds	41,425	43,842
Unquoted equity securities	5,240	4,459
Total investment securities	11,521,172	9,490,863

Classification: RAKBANK-Public

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

7. Investment securities, net (continued)

Movement in investment securities for the year ended 31 December 2022 and 31 December 2021:

	FVOCI AED'000	FVPL AED'000	Amortized Cost AED'000	Total AED'000
At 1 January 2022	4,661,991	236,876	4,591,996	9,490,863
Purchases	2,965,252	1,866,173	4,157,723	8,989,148
Proceeds from disposal/maturities	(2,991,979)	(1,976,368)	(1,458,109)	(6,426,456)
Net changes in fair value due to revaluation	(145,454)	-	-	(145,454)
Net changes in fair value due to hedge and forex	(301,000)	-	(679)	(301,679)
Net changes in fair value through profit or loss	-	(22,357)	-	(22,357)
Profit on sale of equity investments measured at FVOCI	17,429	-	-	17,429
Amount charged to income	(118,564)	-	-	(118,564)
Amortization of premium / discount	38,825	-	(12,001)	26,824
Profit on sale of debt instruments transferred to profit and loss	8,246	3,172	-	11,418
At 31 December 2022	4,134,746	107,496	7,278,930	11,521,172
	FVOCI AED'000	FVPL AED'000	Amortized Cost AED'000	Total AED'000
At 1 January 2021	3,462,173	171,125	4,323,709	7,957,007
Purchases	4,581,041	2,769,559	1,115,271	8,465,871
Proceeds from disposal/maturities	(3,484,754)	(2,718,379)	(812,746)	(7,015,879)
Net changes in fair value due to revaluation	38,280	-	-	38,280
Net changes in fair value due to hedge and forex	(67,592)	-	(23,283)	(90,875)
Net changes in fair value through profit or loss	-	9,353	-	9,353
Profit on sale of equity investments measured at FVOCI	980	-	-	980
Amount charged to income	(2,009)	-	-	(2,009)
Amortization of discount	85,786	-	(12,112)	73,674
Profit on sale of debt instruments transferred to profit and loss	48,086	5,218	1,157	54,461
At 31 December 2021	4,661,991	236,876	4,591,996	9,490,863

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

8. Insurance contract assets and receivables, net

	2022 AED'000	2021 AED'000
Reinsurance contract assets		
Claims reported unsettled	96,936	106,204
Claims incurred but not reported	27,223	30,519
Mathematical reserve	156	1,712
Unearned premium and unexpired risk reserve	67,970	78,857
Total reinsurance contract assets	192,285	217,292
Insurance related receivables		
Premium receivables	102,880	136,350
Reinsurance	13,204	40,074
Insurance agents and brokers	1,607	1,350
Gross insurance related receivables	117,691	177,774
Insurance contract assets and receivables	309,976	395,066
Provision for credit loss	(29,048)	(32,575)
Insurance contract assets and receivables, net	280,928	362,491

9. Other assets

	2022 AED'000	2021 AED'000
Interest receivable	446,933	303,846
Profit receivable on Islamic financing assets	64,310	47,747
Prepayments	35,920	52,460
Foreign exchange and other derivative contracts (Note 32)	563,489	206,801
Insurance related receivables and assets	23,424	24,516
Gold on hand	38,684	7,296
Islamic profit paid in advance	14,195	1,642
Assets acquired in settlements of debts*	11,395	-
Other	235,775	161,857
	1,434,125	806,165

*AED 11.395 million represents the fair value of the asset acquired in settlement of debts during the year. The carrying amount will be recovered principally through a sale transaction rather than through continuing use. It is subject to revaluation at each reporting date, and the related fair value gain/(loss) would be accounted for in the statement of profit or loss.

Classification: RAKBANK-Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

10. Goodwill and intangible assets

	Goodwill	Intangible assets	
	AED'000	Software	Total
		AED'000	AED'000
			(Restated)
Cost			
At 01 January 2021	166,386	-	166,386
Transfer from property and equipment	-	805,522	805,522
Additions	-	1,049	1,049
Transfers	-	36,526	36,526
At 31 December 2021	166,386	843,097	1,009,483
Additions	-	3,568	3,568
Transfers	-	47,916	47,916
At 31 December 2022	166,386	894,581	1,060,967
Accumulated amortization			
At 01 January 2021	-	-	-
Transfer from property and equipment	-	527,282	527,282
Charge for the year	-	83,538	83,538
At 31 December 2021	-	610,820	610,820
Charge for the year	-	79,650	79,650
Disposals	-	-	-
At 31 December 2022	-	690,470	690,470
Net book value			
At 31 December 2022	166,386	204,111	370,497
At 31 December 2021	166,386	232,277	398,663

For the purpose of impairment assessment, goodwill is allocated to the Group's insurance business. Goodwill is tested for impairment annually or at a more frequent basis when there is evidence that the fair value of the unit is less than the carrying value. The impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit, pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

Management has carried out an impairment test for goodwill at the year end and has concluded that no impairment has taken place. For this purpose, the recoverable amount of each cash generating unit has been determined based on a value-in-use calculation using cash flow projections, based on financial forecasts made by senior management, covering a five year period. Cash flows beyond the five-year period are valued using a terminal growth rate, which management believes approximates the long term growth rate for the industry in which the cash generating unit operates. The judgements applied in the VIU calculation are disclosed in note 44.

During the year, software licenses have been reclassified from 'Property and Equipment' to 'Goodwill and intangible assets' amounting to AED 204 million (2021: 232 million), refer Note 44 for details.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

11. Property and equipment

	Land and buildings AED'000	Leasehold improvements AED'000	Information technology assets AED'000 (Restated)	Office Furniture and Equipment AED'000	Motor Vehicles AED'000	Capital work-in- progress AED'000	Total AED'000 (Restated)
Cost							
At 31 December 2020	714,174	100,391	1,028,184	131,444	6,140	23,384	2,003,717
Transfer to Intangibles	-	-	(805,522)	-	-	-	(805,522)
Additions	-	12	1,056	905	185	50,384	52,542
Transfers	(1,539)	311	8,066	247	-	(43,611)	(36,526)
Disposals	(44,096)	-	(3,410)	(5,211)	(982)	-	(53,699)
At 31 December 2021	668,539	100,714	228,374	127,385	5,343	30,157	1,160,512
Additions	346	4	4,780	1,443	0	72,444	79,017
Transfers	2,847	6,957	5,360	1,250	0	(64,330)	(47,916)
Disposals	-	-	(1,857)	(1,344)	(1,160)	-	(4,361)
At 31 December 2022	671,732	107,675	236,657	128,734	4,183	38,271	1,187,252
Accumulated depreciation and impairment							
At 31 December 2020	256,917	94,859	727,627	123,423	4,961	-	1,207,787
Transfer to Intangibles	-	-	(527,282)	-	-	-	(527,282)
Charge for the year	21,880	3,313	14,345	3,497	700	-	43,735
Disposals	(16,433)	-	(3,317)	(5,206)	(762)	-	(25,718)
At 31 December 2021	262,364	98,172	211,373	121,714	4,899	-	698,522
Charge for the year	21,818	2,491	11,013	3,232	351	-	38,905
Disposals	-	-	(1,852)	(1,296)	(1,161)	-	(4,309)
At 31 December 2022	284,182	100,663	220,534	123,650	4,089	-	733,118
Net book value							
At 31 December 2022	387,550	7,012	16,123	5,084	94	38,271	454,134
At 31 December 2021	406,175	2,542	17,001	5,671	444	30,157	461,990

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****12. Due to other banks**

	2022 AED'000	2021 AED'000
Term borrowings	3,289,580	1,831,560
Repurchase agreements (Note 7)	2,638,670	1,313,445
Demand deposits	263,584	29,218
	6,191,834	3,174,223

Reconciliation of liabilities arising from term borrowings:

	1 January 2022 AED'000	Financing cash flows AED'000	Non cash changes AED'000	31 December 2022 AED'000
Term borrowings	1,831,560	1,458,020	-	3,289,580

13. Deposits from customers

	2022 AED'000	2021 AED'000 (Restated)
Current accounts	27,088,001	24,118,918
Call deposits	1,226,314	1,293,288
Saving deposits	3,269,816	3,969,997
Time deposits	13,287,179	9,544,572
	44,871,310	38,926,775

Time deposits include AED 1,509 million (2021: AED 1,258 million) held by the Group as cash collateral for loans and advances granted to customers.

As at 31 December 2021, 'Deposits from customers' have been restated with adjustment amounting to AED 1,279 million. For details as to the restatement refer to Note 44.

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****13. Deposits from customers (continued)**

The below table summarizes the Islamic deposits of customers that are part of deposits from customers above:

	2022	2021
	AED'000	AED'000
Wakala deposits	1,756,700	774,825
Mudaraba term investment deposits	11,401	18,401
Murabaha Term Deposit	1,465,862	2,124,618
Qard-E-Hassan - current accounts	987,471	993,596
Mudaraba - current accounts	526,405	542,796
Mudaraba - saving accounts	197,140	234,719
Mudaraba - call deposits	20,442	13,407
	4,965,421	4,702,362

14. Debt securities issued and other long term borrowings

	2022	2021
	AED'000	AED'000
USD 500 million medium term note issued at discount in April 2019 (a)	1,834,955	1,833,789
USD 145 million private placement net of discount (a)	531,557	529,326
USD 75 million private placement (a)	275,475	275,475
USD 75 million private placement (a)	275,475	275,475
SAR 800 million Islamic bilateral borrowing (b)	-	782,655
USD 100 million bilateral borrowing (c)	367,300	367,300
USD 125 million bilateral borrowing (d)	459,125	459,125
USD 75 million bilateral borrowing (e)	275,475	275,475
SAR 500 million Islamic bilateral borrowing (f)	-	489,160
Less: Debt securities and other borrowing issue costs	(8,153)	(13,454)
Fair value adjustment on hedged medium term note	(11,466)	-
	3,999,743	5,274,326

14. Debt securities issued and other long term borrowings (continued)

- (a) In April 2019, the Group issued five year USD 500 million Euro Medium Term Notes (EMTN) under its USD 2 billion EMTN programme through its subsidiary RAK Funding Cayman Limited. This was issued at a discounted rate of 99.692% and carries a fixed interest rate of 4.125% per annum which is payable half yearly in arrears. These notes mature in April 2024.

The Group issued USD 145 million of floating rate notes in March 2018 through a private placement with an interest rate of USD 3 months LIBOR +1.4% which mature in in March 2023.

The Group issued USD 75 million of floating rate notes on 24 May 2021 through a private placement with an interest rate of USD 3 months LIBOR +1% which matures on 24 November 2023.

The Group issued USD 75 million of floating rate notes on 27 May 2021 through a private placement with an interest rate of USD 3 months LIBOR +1% which matures on 27 November 2023.

- (b) In June 2019 the Group borrowed SAR 800 million at a profit rate of 3.85% per annum which got matured and repaid in June 2022.
- (c) In August 2021 the Group borrowed USD 100 million at an interest rate of 1.35% per annum which matures in August 2023.
- (d) In October 2021 the Group borrowed USD 125 million at an interest rate of 3 months LIBOR +0.80% per annum which matures in October 2023.
- (e) In November 2021 the Group borrowed USD 75 million at an interest rate of 3 months LIBOR +0.80% per annum which matures in November 2023.
- (f) In November 2021 the Group borrowed SAR 500 million at fixed interest rate of 1.4% per annum which got matured and repaid in November 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

14. Debt securities issued and other long term borrowings (continued)

Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows.

	1 January 2022 AED'000	Financing cash flows AED'000	Non cash changes AED'000	31 December 2022 AED'000
USD 500 million medium term note - 2019	1,825,162	-	(7,611)	1,817,551
USD 145 million private placement	527,943	-	3,596	531,539
USD 75 million private placement - 2021	275,475	-	(459)	275,016
USD 75 million private placement - 2021	275,475	-	(142)	275,333
SAR 800 million Islamic bilateral borrowing - 2019	782,655	(783,113)	458	-
USD 100 million bilateral borrowing - 2021	367,300	-	-	367,300
USD 125 million bilateral borrowing - 2021	456,987	-	1,142	458,129
USD 75 million bilateral borrowing -2021	274,169	-	706	274,875
SAR 500 million Islamic bilateral borrowing -2021	489,160	(489,160)	-	-
Total liabilities from financing activities	5,274,326	(1,272,273)	(2,310)	3,999,743

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****15. Insurance contract liabilities and payables**

	2022 AED'000	2021 AED'000
<i>Insurance contract liabilities</i>		
Claims reported unsettled, net	130,448	142,335
Claims incurred but not reported	44,775	46,042
Unearned premiums	138,947	166,629
Unallocated loss adjustment expense reserve	6,520	4,602
Unexpired risk reserve	13,762	17,731
Mathematical Reserve	11,480	14,961
Total insurance contract liabilities	345,932	392,300
<i>Insurance related payables</i>		
Creditors	49,723	24,888
Reinsurance payables	56,331	42,181
Commission payables	12,505	18,478
Total insurance related payables	118,559	85,547
Insurance contract liabilities and payables	464,491	477,847

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

15. Insurance contract liabilities and payables (continued)

Movements in the insurance contract liabilities and reinsurance contract assets during the year were as follows:

	2022			2021		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
Claims						
Outstanding claims	142,335	(106,204)	36,131	81,494	(58,411)	23,083
Unallocated loss adjustment expense reserve	4,602	-	4,602	2,842	-	2,842
Incurred but not reported	46,042	(30,519)	15,523	52,610	(27,766)	24,844
Total at the beginning of the year	192,979	(136,723)	56,256	136,946	(86,177)	50,769
Claims settled during the year	(296,247)	110,937	(185,310)	(277,269)	116,728	(160,541)
Arising from current year claims	305,201	(128,068)	177,133	336,940	(178,295)	158,645
Arising from prior year claims	(20,190)	29,694	9,504	(3,638)	11,021	7,383
Total at the end of the year	181,743	(124,160)	57,583	192,979	(136,723)	56,256
Outstanding claims	130,448	(96,937)	33,511	142,335	(106,204)	36,131
Unallocated loss adjustment expense reserve	6,520	-	6,520	4,602	-	4,602
Incurred but not reported	44,775	(27,223)	17,552	46,042	(30,519)	15,523
Total at the end of the year	181,743	(124,160)	57,583	192,979	(136,723)	56,256
Unearned premium and unexpired risk reserves						
Total at the beginning of the year	184,360	(78,857)	105,503	217,779	(78,506)	139,273
Written during the year	428,985	(186,109)	242,876	425,933	(184,517)	241,416
Earned during the year	(460,636)	196,996	(263,640)	(459,352)	184,166	(275,186)
Net increase during the year	(31,651)	10,887	(20,764)	(33,419)	(351)	(33,770)
Total at the end of the year	152,709	(67,970)	84,739	184,360	(78,857)	105,503

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

16. Other liabilities

	2022	2021
	AED'000	AED'000
Interest payable	170,772	45,337
Profit distributable on Islamic deposits	31,391	28,882
Accrued expenses	358,295	253,128
Provision for employees' end-of-service benefits [Note 29]	125,496	128,268
Foreign exchange and other derivatives derivative contracts	524,049	248,219
Credit card payables and liabilities	41,014	62,673
Managers cheques issued	185,479	186,487
Mortgage payables and liabilities	17,809	26,840
Insurance related payables and liabilities	28,643	34,885
Provision for credit loss on contingent assets and customer acceptances	27,700	9,425
Others	191,823	126,068
	1,702,471	1,150,212

Major portion of other in other liabilities is related to unamortised profit and commission received in advance, unclaimed customer balances and clawback provisions on fiduciary and Bancassurance income.

17. Share capital and dividend

At 31 December 2022, the authorised, issued and fully paid share capital of the Bank comprised 1,676 million shares of AED 1 each (31 December 2021: 1,676 million shares of AED 1 each).

At the meeting held on 12 April 2022, the shareholders of the Bank approved a cash dividend of 22.5% amounting to AED 377.2 million of the issued and paid up capital in respect of the year ended 31 December 2021 (2020: 15% cash dividend amounting to AED 251.4 million). Subsequently the dividend was paid on 19 April 2022.

18. Legal reserve

In accordance with the UAE Federal Law No (2) of 2015 and Articles of Association of the Bank, 10% of the Bank's net profit for the year is transferred to a legal reserve, until such time as the balance in the reserve equals 50% of the issued share capital. Since the legal reserve of the Bank exceeds 50% of Bank's issued capital, profit was not appropriated to legal reserve during the year. This reserve is not available for distribution.

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)****19. Other reserves**

	Voluntary reserve AED'000	General banking risk reserve AED'000	Credit risk reserve AED'000	Fair value reserve AED'000	Total AED'000
At 31 December 2020	337,208	1,000,000	1,742,000	20,487	3,099,695
Changes during the year	-	-	-	31,381	31,381
At 31 December 2021	337,208	1,000,000	1,742,000	51,868	3,131,076
Changes during the year	-	-	-	(155,750)	(155,750)
At 31 December 2022	337,208	1,000,000	1,742,000	(103,882)	2,975,326

In accordance with the Articles of Association of the Bank, 10% of the net profit for the year is to be transferred to a voluntary reserve until such time as the balance in the reserve equals 20% of the issued share capital. Since the voluntary reserve of the Bank is equal to 20% of Bank's issued capital, profit was not appropriated to voluntary reserve during the year. This reserve is available for distribution.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

19. Other reserves (continued)

The Bank maintains a general banking risk reserve to address the risks inherent in the Bank's operating environment. Contributions to this reserve are made at the discretion of the Directors. This reserve is available for distribution.

The Bank has also established a special reserve for credit risk. Contributions to this reserve are voluntary and made at the discretion of the Directors. This reserve is available for distribution. This reserve is available for loss absorption.

Fair value reserve includes fair value of equity instruments that will not be reclassified subsequently to profit or loss, debt instruments that may be reclassified subsequently to profit or loss and fair value of cash flow hedges.

*The CBUAE issued its IFRS 9 guidance on 30 April 2018 via notice No.: CBUAE/BSD/2018/458 addressing various implementation challenges and practical implications for banks adopting IFRS 9 in the UAE ("the Guidance").

Pursuant to clause 6.4 of the Guidance, the reconciliation between general and specific provision under Circular 28/2010 of CBUAE and IFRS 9 is as follows:

	2022	2021
	AED'000	AED'000
<i>Impairment reserve: General</i>		
General provisions under Circular 28/2010 of CBUAE	721,433	654,881
Less: Stage 1 and Stage 2 provisions under IFRS 9	1,299,121	1,080,237
General provision transferred to the regulatory impairment reserve*	-	-
<i>Impairment reserve: Specific</i>		
Specific provisions under Circular 28/2010 of CBUAE	944,486	819,682
Less: Stage 3 provisions under IFRS 9	1,059,901	909,814
Opening balance regulatory impairment reserve 1 January	-	-
Amount reversed from regulatory impairment reserve*	-	-
Total provision transferred to the regulatory impairment reserve	-	-

*In the case where provisions under IFRS 9 exceed provisions under CBUAE, no amount shall be transferred to the impairment reserve.

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****20. Non-controlling interests**

	2022 AED'000	2021 AED'000
Balance at the beginning of the year	39,226	39,312
Profit / (loss) for the year	(7,264)	2,175
Dividends paid	(2,015)	(2,015)
Change in other comprehensive loss for the year	(2,680)	(246)
Balance at the end of the year	27,267	39,226

21. Interest income and interest expense

	2022 AED'000	2021 AED'000
<i>Interest income</i>		
Personal loans	230,032	241,605
Mortgage loans	172,367	154,498
Credit cards	314,823	348,990
Auto loans	20,951	21,457
RAK business loans	346,584	313,536
Wholesale banking loans	342,830	184,567
Other business banking loans	325,191	250,514
Other retail loans	102,129	57,209
Investment securities	292,737	254,505
Deposits with the U.A.E. Central Bank	30,304	229
Other banks	308,886	144,564
	2,486,834	1,971,674
<i>Interest expense</i>		
Deposits from customers	166,439	81,645
Debt securities issued and other long term borrowings	115,455	97,506
Borrowings from other banks	130,571	18,207
	412,465	197,358

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****22. Income from Islamic Financing and distribution to depositors**

	2022 AED'000	2021 AED'000
<i>Income from Islamic financing</i>		
Islamic salam personal finance	150,293	161,093
Islamic auto Murabaha	2,493	3,407
Islamic business banking finance	240,397	193,255
Islamic wholesale banking finance	26,810	22,810
Islamic Investment Income	39,162	38,975
Islamic ijara property finance	47,145	35,276
	506,300	454,816
<i>Distribution to depositors</i>		
Distribution of profit on Islamic term investment deposits	69,926	27,948
Bilateral long term borrowing	20,275	31,568
Distribution of profit on Islamic demand deposits	1,119	1,185
	91,320	60,701

23. Net fees and commission income

	2022 AED'000	2021 AED'000
Personal loans	9,569	22,839
Mortgage loans	15,839	20,059
Credit cards	243,399	247,569
Auto loans	6,704	6,135
RAK business loans	47,404	36,524
Wholesale banking	61,210	69,509
Other business banking	175,989	150,320
Fiduciary income	50,171	78,530
Bancassurance	24,704	21,850
Other	23,170	33,567
	658,159	686,902

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****24. Net insurance underwriting profit**

	2022 AED'000	2021 AED'000
Gross insurance premium	446,146	446,092
Less: insurance premium ceded to reinsurers	(196,996)	(184,166)
Net retained premium	249,150	261,926
Net change in unearned premium reserve	-	-
Net insurance premium	249,150	261,926
Gross claims incurred	(284,667)	(283,100)
Insurance claims recovered from reinsurers	98,374	116,728
Net change in mathematical reserve	1,926	(418)
Net claims incurred	(184,367)	(166,790)
Gross commission earned	18,499	18,361
Less: commission incurred	(79,738)	(76,337)
Net commission incurred	(61,239)	(57,976)
Other underwriting income	3,652	1,557
Net insurance underwriting profit	7,196	38,717

25. Investment income

	2022 AED'000	2021 AED'000
Dividend income	18,531	16,514
Net gain on disposal of investments	11,418	54,461
Fair value (loss)/gain net	(22,357)	9,353
	7,592	80,328

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****26. General and administrative expenses**

	2022 AED'000	2021 AED'000
Staff costs (Note 28)	850,541	775,329
Outsourced staff costs	34,889	34,489
Occupancy costs	64,334	75,950
Marketing expenses	24,650	27,385
Depreciation and amortization	118,555	127,273
Communication costs	51,097	50,882
Credit card expenses	116,621	86,977
Information and technology expenses	104,139	97,777
Other	119,566	119,513
	1,484,392	1,395,575

27. Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year:

	2022 AED'000	2021 AED'000
Profit for the year (AED'000) [attributed to owners of the Bank]	1,170,701	756,125
Weighted average number of shares in issue (in 000's)	1,676,245	1,676,245
Basic earnings per share (AED)	0.70	0.45

28. Staff costs

	2022 AED'000	2021 AED'000
Salaries, allowances and bonus	749,833	674,023
Pension	13,279	13,010
End-of-service benefits	21,444	25,599
Other	65,985	62,697
	850,541	775,329

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

29. Provision for staff end-of-service benefits

The Group provided for end of service benefits for its eligible employees. An actuarial valuation has been carried out as at 31 December 2022 to ascertain present value of the defined benefit obligation. A registered actuary in the UAE was appointed to evaluate the same. The liabilities were measured using the projected unit credit method. For valuing liability as at 31 December 2022, a discount rate of 4.2% (December 2021: 2.15%) and salary escalation rate of 2% (December 2021: 1.5%) were used for the Group except for subsidiary RAK National Insurance Company (RAKNIC). For RAKNIC, discount rate of 4.6% (December 2021: 2.50%) and salary escalation rate of 0% (December 2021: 0%) were used.

Below table illustrates the impact of shift in the discount rate and the salary increment assumption on staff end-of-service benefits liabilities.

Scenario	2022 AED'000	2021 AED'000
Discount Rate: Increase by 1% increase	(7,017)	(9,896)
Discount Rate: Decrease by 1% decrease	7,856	11,396
Salary Escalation Rate: Increase by 1% Increase	7,926	11,367
Salary Escalation Rate: Decrease by 1% decrease	(7,207)	(10,060)

The change in defined benefit obligation as follows:

Change in Defined Benefit Obligation:	2022 AED'000	2021 AED'000
Balance at 1 January	129,096	125,112
Service cost:		
-Current service cost	17,662	17,393
-Past service cost	480	-
Interest expense	2,588	1,954
Net benefits paid	(19,331)	(12,601)
Remeasurements:		
-Effect of changes in demographic assumptions	72	-
-Effect of changes in financial assumptions	(8,927)	(5,372)
-Effect of experience adjustments	2,995	2,610
Consolidation adjustments	861	(828)
Balance at 31 December	125,496	128,268

There are no scheme assets as 31 December 2022 and 31 December 2021. Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the financial position date. In addition, in accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been

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discounted to net present value using an appropriate discount rate based on management's assumption of average annual increment/promotion costs. The present value of the obligation as at 31 December 2022 is not materially different from the provision computed in accordance with the UAE Labour Law. The provision arising is disclosed as 'provision for employees' end of service indemnity' in the consolidated statement of financial position under 'Other liabilities' (Note 16).

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****30. Provision for credit loss, net**

	2022 AED'000	2021 AED'000
Net impairment charge on loans and advances [Note 6(d)]	608,318	1,067,528
Net impairment charge on due from other banks	18,029	3,451
Net impairment charge on investment securities measured at fair value through OCI	118,564	2,009
Net impairment charge on investment securities measured at amortised cost	32,184	2,895
Net impairment charge on insurance contracts	8,648	2,382
Net impairment charge on customer acceptances	435	72
Net impairment charge / (release) on off balance sheet items	17,840	(1,674)
Net impairment charge for the year	804,018	1,076,663

31. Contingencies and commitments

	2022 AED'000	2021 AED'000 (Restated)
Irrevocable commitments to extend credit	4,492,089	3,957,628
Letters of guarantee - Financial	340,684	367,645
Letters of guarantee – Non Financial	804,121	763,841
Letters of credit	94,792	93,296
Capital commitments and other contingencies	35,870	31,404
	5,767,556	5,213,814

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss, though not easy to quantify, is considerably less than the total unused commitments since most commitments to extend credit are contingent upon customers maintaining specific credit standards. While there is some risk associated with the remainder of commitments, the risk is viewed as modest, since it results firstly from the possibility of the unused portion of loan authorisations being drawn by the customer, and second, from these drawings subsequently not being repaid as due. The Bank monitors the term to maturity of credit commitments because longer term commitments generally have a greater degree of risk than shorter term commitments. Commitments to extend credit amounting to AED 7,398 million (2021: AED 7,036 million) that are revocable at the option of the Bank and not included in the above table.

31. Contingencies and commitments (Continued)

The Group is holding AED 27 million (31 December 2021: AED 9.2 million) provision for expected credit loss on off balance sheet items as per IFRS 9, out of which AED 15.7 million (31 December 2021: AED 5.5 million) of provision relates to irrevocable commitments.

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument.

Letters of credit are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank, up to a stipulated amount, under specific terms and conditions. These letters of credit are collateralised by the underlying shipments of goods to which they relate and therefore have significantly less risk.

32. Derivative contracts

In the ordinary course of business, the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. These derivatives are stated at fair value. The fair value of a derivative is the equivalent of the unrealised gain or loss from marking to market the derivative using prevailing market rates or internal pricing models.

Unrealised gains and losses are either recognised in profit and loss or in cash flow hedge reserve. In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes:

- (a) Swaps are commitments to exchange one set of cash flows for another. In interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. In cross-currency swaps interest payments and principal in one currency are exchanged for interest payments and principal in another currency. . In periodic knockout swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal, however they have a rate knockout beyond which neither counterparty is obligated to the other.
- (b) Credit Default Swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a debt instrument goes into default and fails to pay.
- (c) Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are marked to market daily.
- (d) Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

32. Derivative contracts (continued)

- (e) Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.
- (f) Coupon only Swap is a contract to exchange coupons in one currency for coupons in another currency. It is a form of cross-currency swap that entails no exchange of principal in different currencies at maturity, and only interest payments are exchanged.
- (g) Range accrual is a structured product where the coupon is linked to a reference index, such as LIBOR, being within a defined range. Callable range accrual is a range accrual where the issuer has option to call the note at specified dates in the future.
- (h) Interest rate cap is a type of interest rate derivative in which the buyer receives payments at the end of each period in which the interest rate exceeds the agreed strike price. Interest rate floor is a derivative contract in which the buyer receives payments at the end of each period in which the interest rate is below the agreed strike price.
- (i) A target redemption forward (TARF) is a structured forward contract that allows the holder to buy or sell a currency against another in a regular sequence of transactions at a lower or higher level than the respective forward rate on the trade date. The product automatically expires if the enhanced rate reaches a target level.

Derivatives held or issued for hedging purposes

As part of its asset and liability management, the Group uses derivatives for hedging purposes in order to reduce its exposure to currency and interest rate risks. This is achieved by hedging specific financial instruments and forecasted transactions as well as strategic hedging against overall financial position exposures.

The Group uses forward foreign exchange contracts, NDFs, Futures and swaps to hedge against specifically identified currency risks. In addition, the Group uses interest rate swaps to hedge against the changes in the cash flow arising from certain Floating interest rate loans and deposits.

For interest rate risks strategic hedging is carried out by monitoring the repricing of financial assets and liabilities and entering into interest rate swaps to hedge a proportion of the interest rate exposure. As strategic hedging does not qualify for hedge accounting, the related derivatives are accounted for as regular derivative transactions.

The Group has entered into interest rate swaps that are designated as fair value hedges, for hedging the interest rate risk on certain Fixed rate Investments and Loans.

The group's accounting policy for its derivative financial instruments and fair value and cash flow hedges are set out in note 3(h).

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 43(d).

32. Derivative contracts (continued)

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

For hedges of foreign currency purchases, the group enters into hedge relationships where the critical terms of the hedging instrument match with the terms of the hedged item. The group uses the hypothetical derivative method to assess hedge effectiveness.

In hedges of foreign currency purchases, ineffectiveness may arise if the timing of the forecast transaction changes from what was originally estimated, or if there are changes in the credit risk of the derivative counterparty.

The group enters into interest rate swaps that have similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps. As all critical terms matched during the year, there is an economic relationship between the hedged item and the hedging instrument.

Hedge ineffectiveness for interest rate swaps is assessed using the same principles as for hedges of foreign currency purchases. It may occur due to:

- the credit value/debit value adjustment on the interest rate swaps which is not matched by the loan,
- differences in critical terms between the interest rate swaps and loans.
- the effects of the forthcoming reforms to IBOR, because it might take effect at a different time and have a different impact on the hedged item and the hedging instrument.

The table on the following page shows the positive and negative fair values of derivative financial instruments, which are equivalent to the market values, together with the notional amounts analysed by the term to maturity. The notional is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

32. Derivative contracts (continued)

31 December 2022

	Notional amount by term to maturity							
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 Years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	27,984	33,926	10,409,927	8,042,040	819,679	1,364,558	183,650	-
Foreign exchange options (bought)	5,406	-	1,786,774	1,786,774	-	-	-	-
Foreign exchange options (sold)	-	5,407	1,759,568	1,759,568	-	-	-	-
Interest rate swaps	456,185	363,893	11,742,439	64,291	800,000	146,920	3,450,403	7,280,825
Knockout swaps	444	-	367,300	-	-	-	-	367,300
Structured forward contracts (bought)	16	515	72,384	-	30,268	42,116	-	-
Structured forward contracts (sold)	515	16	72,384	-	30,268	42,116	-	-
Multi callabale range arrangement	77	90,914	770,000	-	-	-	450,000	320,000
Sub total	490,627	494,671	26,980,776	11,652,673	1,680,215	1,595,710	4,084,053	7,968,125
Derivatives held as fair value hedge								
Interest rate swap	55,939	15,321	2,465,849	-	73,460	121,209	1,750,184	520,996
Sub total	55,939	15,321	2,465,849	-	73,460	121,209	1,750,184	520,996
Derivative held as cash flow hedge:								
Forward foreign exchange contract	15,119	11,153	2,313,075	932,385	1,380,690	-	-	-
Interest rate swap	-	2,904	200,000	-	-	-	200,000	-
Cross-currency swap	1,804	-	477,490	-	-	146,920	330,570	-
Sub total	16,923	14,057	2,990,565	932,385	1,380,690	146,920	530,570	-
Total Derivatives	563,489	524,049	32,437,190	12,585,058	3,134,365	1,863,839	6,364,807	8,489,121

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

32. Derivative contracts (continued)

31 December 2021

	Notional amount by term to maturity							
	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 Years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	32,405	27,967	8,813,257	6,870,295	910,594	1,032,368	-	-
Foreign exchange options (bought)	4,341	-	526,240	526,240	-	-	-	-
Foreign exchange options (sold)		4,342	526,240	526,240	-	-	-	-
Interest rate swaps	147,043	140,996	8,431,584	-	68,197	155,301	2,005,912	6,202,174
Structured forward contracts (bought)	18	43	55,362	-	45,545	9,817		
Structured forward contracts (sold)	43	18	55,362	-	45,545	9,817		
Multi callabale range arrangement	59	2,509	700,000	-	-	-	-	700,000
Futures contracts	6		7,346	-	7,346	-	-	-
Sub total	183,915	175,875	19,115,391	7,922,775	1,077,227	1,207,303	2,005,912	6,902,174
Derivatives held as fair value hedge								
Interest rate swap	-	66,521	1,292,896	-	330,570	-	797,041	165,285
Sub total	-	66,521	1,292,896	-	330,570	-	797,041	165,285
Derivative held as cash flow hedge:								
Forward foreign exchange contract	6,563	641	1,368,699	56,216	816,483	496,000	-	-
Interest rate swap	13,480	-	200,000	-	-	-	200,000	-
Cross-currency swap	2,843	-	477,490	-	-	-	477,490	-
Future contracts	-	5,182	132,605	132,605	-	-	-	-
Sub total	22,886	5,823	2,178,794	188,821	816,483	496,000	677,490	-
Total Derivatives	206,801	248,219	22,587,081	8,111,596	2,224,280	1,703,303	3,480,443	7,067,459

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

32. Derivative contracts (continued)

The following table contains details of the hedged exposures covered by the Group's hedging strategies:

31 December 2022

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on hedged item		Balance sheet item	Cash flow hedge reserve	
	Assets AED'000	Liabilities AED'000	Assets AED'000	Liabilities AED'000		Continuing hedges AED'000	Discontinued hedges AED'000
Derivatives held as fair value hedge							
Interest rate swap	1,682,032	-	54,767.00	4,161	Investment securities measured at fair value	N/A	N/A
Interest rate swap	-	464,078	-	11,160	Debt securities issued and other long term borrowings	N/A	N/A
Interest rate swap	122,747	-	1,172	-	Loans and advances, net	N/A	N/A
Sub total	1,804,779	464,078	55,939	15,321		-	-
Derivative held as cash flow hedge:							
Forward foreign exchange contract-XAU	242,876	-	N/A	N/A	Loans and advances, net	(68)	-
Forward foreign exchange contract-Margin FI deposit	-	344,168	N/A	N/A	Deposits from customers	244	-
Forward foreign exchange contract-Call deposit	-	356,160	N/A	N/A	Deposits from customers	185	-
Interest rate swap	200,346	-	N/A	N/A	Loans and advances, net	(4,432)	-
Coupon only swap	-	-	N/A	N/A	Debt securities issued & other long term borrowings	-	277
Cross-currency swap	1,771,611	-	N/A	N/A	Investment securities measured at amortised cost	1,233	-
Sub total	2,214,833	700,328	-	-		(2,838)	277
Total Derivatives	4,019,612	1,164,406	55,939	15,321		(2,838)	277

Classification: RAKBANK-Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

32. Derivative contracts (continued)

The following table contains details of the hedged exposures covered by the Group's hedging strategies:

31 December 2021

	Carrying amount of hedged item		Accumulated amount of fair value adjustments on hedged item		Balance sheet item	Cash flow hedge reserve	
	Assets AED'000	Liabilities AED'000	Assets AED'000	Liabilities AED'000		Continuing hedges AED'000	Discontinued hedges AED'000
Derivatives held as fair value hedge							
Interest rate swap	1,220,638	-	-	61,772	Investment securities measured at fair value	N/A	N/A
Interest rate swap	129,088	-	-	4,750	Loans and advances, net	N/A	N/A
Sub total	1,349,726	-	-	66,522		-	-
Derivative held as cash flow hedge:							
Forward foreign exchange contract-SAR		1,271,815	N/A	N/A	Debt securities issued and other long term borrowings	1,118	-
Forward foreign exchange contract-SAR							
Forward foreign exchange contract-NGN	24,423	-	N/A	N/A	Investment securities measured at fair value	(269)	-
Forward foreign exchange contract-XAU	67,876	-	N/A	N/A	Loans and advances, net	387	-
Interest rate swap	200,346	-	N/A	N/A	Loans and advances, net	11,356	-
Interest rate swap							
Cross-currency swap		-			Debt securities issued & other long term borrowings	-	868
Coupon only swap	478,600	-	N/A	N/A	Investment securities measured at amortised cost	2,624	-
Future contracts	136,836	-	N/A	N/A	Investment securities measured at fair value	(1,065)	-
Sub total	908,081	1,271,815	-	-		14,151	868
Total Derivatives	2,257,807	1,271,815	-	66,522		14,151	868

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****33. Cash and cash equivalents**

	2022 AED'000	2021 AED'000
Cash in hand and current account with UAE Central Bank including overnight deposits	2,520,741	1,851,716
Due from other banks	11,513,619	8,468,123
	14,034,360	10,319,839
Less: Due from other banks with original maturity of greater than three months	(9,705,134)	(6,995,225)
	4,329,226	3,324,614

34. Operating segments

Following the management approach of IFRS 8, operating segments are reported in accordance with the internal reporting to the management, which is responsible for allocating resources to the reportable segments and assesses its performance. All operating segments used by the Group meet the definition of a reportable segment under IFRS 8.

The Group has five main business segments:

- Retail banking - incorporating individual customer and certain business current accounts, savings accounts, deposits, credit and debit cards, individual customer loans and mortgages;
- Wholesale banking - incorporating transactions with corporate bodies including government and public bodies and comprising of loans, advances, deposits and trade finance transactions of corporate customers and financial institutions;
- Business banking - incorporating transactions comprising of loans, advances, deposits and trade finance transactions of SME;
- Treasury - incorporating activities of the dealing room, related money market, and foreign exchange transactions and hedging activities with other banks and financial institutions including the UAE Central Bank, none of which constitute a separately reportable segment; and
- Insurance business - incorporating all insurance related transactions of its subsidiary Ras Al Khaimah National Insurance Company PSC.

The above segments include conventional and Islamic products and services of the Group.

As the Group's segment operations are all financial with a majority of revenues deriving from interest and fees and commission income, the management relies primarily on revenue and segmental results to assess the performance of the segment.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment revenue. Interest charged for these funds is based on the Bank's funds transfer pricing guidelines. There are no other material items of income or expense between the business segments.

The Group's management reporting is based on a measure of net profit comprising net interest income, loan impairment charges, net fee and commission income, other income and non-interest expenses. Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the CEO (the chief operating decision maker) in order to allocate resources to the segment and to assess its performance.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

34. Operating segments (continued)

The segment information provided to the management for the reportable segments for the period ended 31 December 2022 and 2021 is as follows:

	Retail Banking AED'000	Wholesale Banking AED'000	Business Banking AED'000	Treasury & other AED'000	Insurance business AED'000	Head office & Unallocated costs AED'000	Consolidation adjustments AED'000	Total AED'000
31 December 2022								
Net external interest income	792,631	498,089	645,906	126,302	9,621	-	1,820	2,074,369
Income from Islamic financing net of distribution to depositors	195,066	(30,027)	237,500	12,441	-	-	-	414,980
Internal revenue	(126,322)	(189,067)	210,015	(118,283)	-	223,657	-	-
Net interest income and net income from Islamic financing	861,375	278,995	1,093,421	20,460	9,621	223,657	1,820	2,489,349
Non-interest income	467,441	64,863	296,470	134,640	21,882	(4,590)	(18,208)	962,498
Operating income	1,328,816	343,858	1,389,891	155,100	31,503	219,067	(16,388)	3,451,847
Operating expense excluding depreciation & amortisation	(627,301)	(45,216)	(268,669)	(24,030)	(56,890)	(352,432)	8,701	(1,365,837)
Depreciation & amortisation	(37,863)	(1,575)	(8,117)	(3,140)	(2,379)	(65,481)	-	(118,555)
Total operating expense	(665,164)	(46,791)	(276,786)	(27,170)	(59,269)	(417,913)	8,701	(1,484,392)
Impairment charge, net	(251,629)	(64,828)	(303,040)	(150,677)	(7,208)	(26,636)	-	(804,018)
Net profit	412,023	232,239	810,065	(22,747)	(34,974)	(225,482)	(7,687)	1,163,437
Segment assets	18,842,431	19,485,537	8,464,319	18,140,049	728,441	1,173,963	(330,898)	66,503,842
Segment liabilities	15,787,793	12,680,445	18,614,076	9,015,413	583,500	963,897	(166,390)	57,478,734

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

34. Operating segments (continued)

	Retail Banking AED'000	Wholesale Banking AED'000	Business Banking AED'000	Treasury & other AED'000	Insurance business AED'000	Head office & Unallocated costs AED'000	Consolidation adjustments AED'000	Total AED'000
31 December 2021								
Net external interest income	788,725	289,456	547,427	138,724	8,473	(1,223)	2,734	1,774,316
Income from Islamic financing net of distribution to depositors	190,334	4,966	191,624	7,191	-	-	-	394,115
Internal revenue	(243,275)	(72,339)	(58,898)	330,580	-	43,932	-	-
Net interest income and net income from Islamic financing	735,784	222,083	680,153	476,495	8,473	42,709	2,734	2,168,431
Non-interest income	514,016	72,461	250,296	166,589	58,850	17,091	(17,196)	1,062,107
Operating income	1,249,800	294,544	930,449	643,084	67,323	59,800	(14,462)	3,230,538
Operating expense excluding depreciation & amortisation	(586,644)	(42,240)	(257,706)	(22,050)	(50,443)	(316,708)	7,489	(1,268,302)
Depreciation & amortisation	(41,781)	(2,216)	(6,692)	(3,096)	(2,640)	(70,848)	-	(127,273)
Total operating expense	(628,425)	(44,456)	(264,398)	(25,146)	(53,083)	(387,556)	7,489	(1,395,575)
Impairment charge, net	(598,347)	(72,593)	(392,943)	(9,013)	(3,767)	-	-	(1,076,663)
Net profit	23,028	177,495	273,108	608,925	10,473	(327,756)	(6,973)	758,300
Segment assets	18,442,199	15,186,616	7,893,733	14,378,162	796,804	1,198,910	(313,031)	57,583,393
Segment liabilities	13,238,201	10,110,492	16,736,468	7,940,565	594,142	730,063	(148,380)	49,201,551

The comparative figures of 31 December 2021 have been reclassified between operating segments due to movement of accounts among segments and restatements. Also segment assets and segment liabilities of 31 December 2021 has been restated.

35. Related parties transactions and balances

Related parties comprise key management, businesses controlled by shareholders and directors as well as businesses over which they exercise significant influence. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Compensation of key management personnel comprises of salaries, bonuses and other benefits.

During the year, the Group entered into transactions with related parties in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties.

The transactions with related parties and balances arising from these transactions are as follows:

	2022	2021
	AED'000	AED'000
<i>Transactions during the period</i>		
Interest income	20,367	7,415
Interest expense	14,643	12,571
Commission income	714	944
Directors' and key management personnel's remuneration, sitting and other expenses	32,440	22,934
<i>Balances</i>		
<i>Loans and advances:</i>		
- Shareholders and their related companies	753,948	379,316
- Directors and their related companies	134,178	85,630
- Key management personnel	6,994	5,496
	895,120	470,442
<i>Deposits</i>		
- Shareholders and their related companies	2,768,984	2,119,011
- Directors and their related companies	15,448	12,334
- Key management personnel	20,269	21,633
	2,804,701	2,152,978
<i>Irrevocable commitments and contingent liabilities and forward contracts</i>		
- Shareholders and their related companies	66,923	76,002
- Directors and their related companies	40	40
	66,963	76,042
<i>Insurance related receivables</i>		
Due from policy holders	11,715	12,812
<i>Insurance related payables</i>		

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

36. Right-of-use assets

	2022	2021
	AED'000	AED'000
Balance at the beginning of the year	134,424	117,872
Additions during the year	29,847	14,017
(Decrease)/increase due to changes in lease liability and contract year	(21,918)	32,223
Depreciation for the year	(29,696)	(29,688)
Balance at the closing of the year	112,657	134,424

37. Lease liabilities

	2022	2021
	AED'000	AED'000
Balance at the beginning of the year	130,600	102,348
Additions during the year	29,847	14,017
(Decrease)/increase due to changes in lease contract amount and contract year	(31,345)	33,641
Loss from rent concession due to pandemic	-	(1,508)
Interest cost on lease liability for the year	5,387	4,880
Less: Rental payments made during the year	(31,577)	(22,778)
Balance at the closing of the year	102,912	130,600

38. Fiduciary activities

The Bank holds assets in a fiduciary capacity for its customers without recourse. At 31 December 2022, the market value of such assets amounted to AED 5,147 million (2021: AED 5,488 million) and are excluded from the consolidated financial statements of the Group.

39. Legal proceedings

The Bank is involved in various legal proceedings and claims arising in the ordinary course of business. While the outcome of these matters cannot be predicted with certainty, management does not believe that these matters will have a material adverse effect on the Group's consolidated financial statements if settled unfavorably.

The Bank's subsidiary, RAKNIC as common with other insurance companies, is involved as defendant in a number of legal cases in respect of its underwriting activities. A provision is made in respect of each individual case where it is probable that the outcome would result in a loss to the Group in terms of an outflow of economic resources and a reliable estimate of the amount of outflow can be made.

40. Seasonality of results

There is no income of seasonal nature during year 2022 and 2021.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management*****Risk management review***

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial services business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Bank's Board and Management believe that an effective risk department is vital to achieving the Bank's strategic growth objectives in a sustainable manner. The Board Risk Committee endorses the Bank's overall risk management strategy and appetite, providing the necessary direction concerning risk management measures undertaken by the Group. The Risk Management function of the Bank is independent of the risk taking functions which is in line with the guidelines of the UAE Central Bank and consistent with Group's model of three lines of defence.

"The Group has a Board approved Enterprise Risk Management policy which covers the Group's Risk Appetite framework including the Financial Risks and operating within the thresholds approved for Financial Risks".

The Group's risk management policies are designed to identify, analyse, define appropriate limits/controls and monitor adherence thereof by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board of Directors have established six committees to supervise specific areas and to prepare topics for consideration by the complete Board. The broad role of each committee is described in the table below:

BOARD RISK COMMITTEES**Committee****Roles & Responsibilities****Board Credit Committee (BCC):**

Board Credit Committee (BCC) will have its credit approval authority delegated by the Chairman/Board.

Board/Chairman/BCC will thereafter sub delegate or approve delegated authorities of MCC and below. BCC will also have authority to ratify approvals made by any other officers of the bank beyond their delegated authority; (typically in an emergency situation).

- Review and approve the Credit proposals which are above the delegated limits given to management.
- Review and approve Credit grading methodology for the Bank.
- Approve investments within the delegated lending authority as stated in the Investment Policy of the Bank.
- Review and approve, the Product Program Guidelines (PPGs) for Asset products relating to all segments of the bank and any other areas of Business

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Risk management review (continued)

Committee

Board Nomination & Remuneration Committee (BNRC):

The BNRC of RAKBANK has been established by the Board of Directors to assist them to oversee, monitor and review matters relating to the composition of the Board including appointment of new Directors/Board Members, Executive Management remuneration, and reward strategies.

Roles & Responsibilities

- Review the structure, size and composition of the Board and make recommendations on changes.
- Formulate the criteria to determine the Knowledge, Skills and Experience required to be a Board Member/Director.
- Identify and review candidates qualified to be appointed as Board Members/Directors, including evaluation of incumbent members for potential re-nomination. The Committee will conduct candidate evaluation in accordance with a process that is formal and transparent, passing on the recommendations for the nomination to the Board.
- Evaluate and approve the compensation plans, policies and succession plans of the Executive Management.
- Assist the Board by reviewing/making recommendations in respect of the remuneration policies and framework for all employees.
- Review and recommend to the Board for the Executive Management, their annual base salary, annual bonus/variable pay, and any other compensation or benefit.
- Recommend to the Board, a set of corporate governance guidelines for the Bank.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Risk management review (continued)****Committee****Board Audit Committee (BAC):**

The Board Audit Committee has been established by the Board of Directors (the Board) of the Bank to assist the Board in the oversight, monitoring and review of the following aspects of the Bank and its subsidiaries' operations:

- The quality and integrity of financial statements and financial reporting.
- The effectiveness of governance, risk management and internal control systems.
- Compliance with laws and regulations.
- Compliance with the Group Code of Conduct.
- The Group Internal Audit (GIA) function.
- The statutory audit process and External Auditors.
- Compliance with the Sharia in respect of Islamic Banking products and services.

Roles & Responsibilities

- Monitor the appropriateness and integrity of the interim and published financial statements and annual report of the Bank and its businesses and subsidiaries, including significant financial reporting judgments contained in them.
- Review and approve GIA's strategy, objectives, budget and resource plan, performance measures and outcomes, and its risk-based annual audit plan. Review GIA reports on the effectiveness of internal control systems and follow up on the implementation of corrective measures.
- Consider and make recommendations to the Board on the appointment, re-appointment, resignation or removal of the External Auditors. Approve the terms of engagement, nature and scope of their audit and the effectiveness of the audit process.
- Review whistleblowing arrangements by which staff may, in confidence, raise concerns about possible improprieties in financial reporting or other matters.
- Receive and review regulatory inspection reports from the Central Bank of the UAE
- Other matters relating to internal audit, external audit, internal controls, and financial reporting
- Evaluate the effectiveness of policies established for supervising compliance with the Sharia, as approved by the Internal Sharia Supervisory Committee ("ISSC"). Assess the effectiveness and adequacy of the Internal Sharia Audit Department ("ISAD"), and its contribution in ensuring compliance with the Sharia. Review reports prepared by ISAD to ensure necessary measures have been taken in their regard by Senior Management.

41. Financial risk management (continued)

Risk management review (continued)

Committee

Board Risk Committee (BRC):

The BRC of RAKBank has been established by the Board of Directors to assist the Board in fulfilling its responsibility with respect to the oversight of the bank's risk management framework specifically relating to Market Risk, Liquidity Risk, Credit Risk, Operational Risk, Internal Control, Information Security risk and Fraud risk. The committee also reviews and approves changes to including the significant policies and practices used in managing these risks.

The Bank's compliance framework specifically relating to Anti Money Laundering, Sanctions, Regulatory Compliance, Subsidiaries Compliance, Sharia Compliance, Consumer Protection, Corporate Governance and Legal including approval of policies (as relevant) relating to these risks.

Roles & Responsibilities

- Responsible for implementation of an effective risk culture and internal controls across the Bank.
- Oversee and ensure Bank's risks are at acceptable level as per the risk appetite and that the Bank's risks do not exceed such level.
- Review and approve the bank's key risk policies and overall Risk Appetite Framework.
- Receive reports from, review with, and provide feedback to, Management Committees on the categories of risk the bank faces.
- Review the Bank's Regulatory Risk Capital (credit, market and operational risks), including significant inputs and assumptions.
- Review and approve the Bank's Internal Capital Adequacy Assessment Process (ICAAP).
- Review of all Risk reports for assessing the Bank's exposure to internal and external environment and discuss strategies to overcome unacceptable risks.
- Provide guidance to management, to assist them in improving their risk management practices and / or mitigating certain risks, including the presence of qualified management personnel to carry out risk management activities effectively.
- Supervise the compliance management framework of the Bank and evaluate the effectiveness of the framework and mechanisms to ensure compliance with Anti Money Laundering, Sanctions and Regulatory compliance requirements stipulated by Central Bank of UAE and such other regulatory authorities.
- Review effective implementation and on-going management of Consumer Protection Regulations and Standards as prescribed by Central Bank of UAE.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Risk management review (continued)

Committee	Roles & Responsibilities
Board Compliance, Corporate Governance and Legal Committee (BCCGLC): The Board Compliance, Corporate Governance and Legal Committee has been established by the Board of Directors to assist the Board of Directors. The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to the oversight of the Bank's Compliance framework specifically relating to Anti Money Laundering, Sanctions, Regulatory Compliance, Sharia Compliance, Consumer Protection, Corporate Governance and Legal including approval of Policies relating to these areas.	• Ensure the three functions covered in the scope of this committee ie Compliance, Corporate Governance and Legal unit have a comprehensive strategy, governance framework and policies that are consistent with the nature and volume of the Bank's activities. • Responsible for implementation of an effective compliance culture and internal controls across the Bank. • Oversee and ensure Bank's Compliance risks are at acceptable level as per the risk appetite and that the Bank's risks do not exceed such level. • Supervise the compliance management framework of the Bank and evaluate the effectiveness of the framework and mechanisms to ensure compliance with Anti Money Laundering, Sanctions and Regulatory compliance requirements stipulated by Central Bank of UAE and such other regulatory authorities. • Review effective implementation and on-going management of Consumer Protection Regulations and Standards as prescribed by Central Bank of UAE from time to time. • Provide guidance to management, as needed, to assist them in improving their compliance management practices, including the presence of qualified management personnel to carry out Compliance and Corporate Governance activities effectively. • Approve Policies and Policy exceptions relating to Compliance, Sharia Compliance, Corporate Governance and Legal areas.

BCCGL Committee has been dissolved with effect from November 2022 and the said committee's responsibilities have been merged with Board Risk Committee (BRC).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Risk management review (continued)

Committee

Roles & Responsibilities

Board Strategy Committee (BSC):

The Board Strategy Committee has been established by the Board of Directors to assist the Board of Directors and give guidance to the CEO and Senior Management in managing the affairs of the Bank in areas of the Bank's overall strategy, operational and financial performance monitoring, and budgeting. The scope of the Committee includes RAKBANK and its subsidiaries.

- Review the Bank's strategic plan and recommend it to the Board of Directors for approval.
- Monitor the Bank's business objectives and strategy implementation.
- Review the developments and trends shaping the future of the industry to align the Bank's strategy and positioning, accordingly.
- Review and consider the Management's proposals re new strategic initiatives, such as partnerships and alliances.
- Advise the CEO on strategic issues that members of the Committee believe are relevant.
- Review and approve strategic proposals relating to the expansion of the business in terms of organic growth and/or acquisitions, distribution, and new lines of business.
- Consider strategic matters related to the Bank's subsidiaries and Group companies.
- Review the Bank's proposed annual budget and financial objectives, including achieving cost optimization and recommend it to the Board of Directors for approval.
- Review the Bank's performance at least quarterly against the budget.
- Review any other matter delegated by the Board of Directors

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Compliance risk

Compliance Risk at the Group is defined as the risk emanating from regulatory sanctions, material financial loss or loss to reputation that the bank will suffer as a result of its failure to comply with laws, regulations, self-regulatory organizational rules & standards/controls and codes of conduct applicable to its banking activities.

The definition of compliance at Group thereby includes:

- Compliance with regulatory requirements
- Compliance with internal policy dictates
- Compliance with internal controls embedded in operating procedures of the Group

The Regulatory & Compliance function is managed by Chief Compliance Officer reporting to the CEO. The Group has an established Compliance function, as its second line of defence. The function is responsible for identification, monitoring and reporting of all compliance related risks. It works closely with all business and supports units of the bank in formulating compliance policies and has oversight responsibility for implementation and advice of prudential regulations and conduct of business. This Division also acts as the main liaison with the Central Bank of the U.A.E. The framework and guidelines for compliance are designed by management and approved by board of directors, in line with Basel guidelines in this regard.

The Board has formed the Board Compliance, Governance and Legal Committee to assist in fulfilling its responsibility with respect to the oversight of the Bank's Compliance framework specifically relating to Anti Money Laundering, Sanctions, Regulatory Compliance, Sharia Compliance, Consumer Protection, Corporate Governance and Legal and to manage risks in these areas. This committee is supported by a management level Committee.

Operational Risk

Operational Risk is the risk of loss arising from inadequate or failed internal processes, people and systems or from external events. The Group endeavours to effectively manage and mitigate Operational Risk through a robust and effective control environment across the organization.

The Operational Risk function is managed by Head of Operational Risk, Internal Controls and BCM reporting to the Chief Risk Officer. The Bank has a formal Operational Risk Management (ORM) governance structure established under the aegis of Management Risk Committee and Board Risk Committee, which provides the strategic direction and oversight over ORM activities.

The governance structure is designed to include three levels of Risk Management signifying a clear division of responsibilities between the risk owners (the business, operations and support units), the control functions (Risk Management) and the Internal Audit function for safeguarding the Bank's assets and reputation against potential operational risks arising from day-to-day business activities. The governance structure is described below:

- First Line of Defence - Business, Operations & Support Units
- Second Line of Defence - Risk Management & Compliance
- Third Line of Defence - Internal Audit

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Information Technology Risk

The Group considers cyber security / IT Risk as one of the most important risks to be managed. IT risk is the risk posed by internal and external threat actors targeting the bank's technology infrastructure which can have an impact on Bank's ability to service its customers through technology disruptions, data theft etc.

The Group has a dedicated IT Risk and Fraud Prevention unit managed by Director – IT Risk Management and Fraud Prevention who reports to the Chief Risk Officer. This unit manages security risk assessments, perimeter security monitoring, compliance to technical regulatory requirements and overarching governance for compliance to the Group's IT Risk policy.

Fraud risk

The Group's Management and Board recognise that proactive fraud risk management is an integral part of Group's overall risk management strategy. The Group has set up dedicated units to address, prevent, detect and respond to all aspects of fraud. The Fraud Prevention and Detection units are managed by Director IT Risk and Fraud Prevention who reports to the Chief Risk Officer. The Fraud response (Investigations) unit is managed by Head, Fraud Investigations who reports to the Chief Risk Officer.

The Group has adopted a Fraud Risk Management Framework (FRMF) with an objective to implement an effective Fraud Risk Management (FRM) policy and processes across the Group. This initiative is Group's approach to manage Fraud Risk in a timely and efficient manner by setting up systems and procedures to identify and actively mitigate Fraud risks. The Group has adopted a three pronged approach to Fraud Risk Management under the new framework:

- Fraud Prevention
- Fraud Detection
- Fraud Response

Credit risk

Credit risk is defined as the risk associated with the inability, unwillingness or failure of the customers, clients or counterparties of the Group to honour their contractual obligations, in part or whole, by way of a default on their principal, interest, fees, profit or any other contractual obligation by whatever name called, under a loan arrangement, credit facility or any other such transaction facilitated by the Group, in effect causing the Group to suffer a financial loss.

Credit risk also arises through the downgrading of counter parties, whose credit instruments are held by the Group, thereby resulting in the value of the assets to fall. As credit risk is the Group's most significant risk, considerable resources, expertise and controls are devoted to managing this risk within the core departments of the Bank.

The Group's credit policy provides for the development of a systematic and consistent approach to identifying and managing borrower and counter party risks contained in all retail, business banking, and wholesale banking assets.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Credit risk (continued)

The Chief Credit Officer and team are responsible for recognition and management of credit risk both at transaction and portfolio levels and to ensure that risk procedures are adhered to in a manner consistent with the framework set out in the Credit Policy, Product Programs Guidelines (PPG), Credit circulars and comply with regulatory norms. Credit risk teams under direction of Chief Risk Officer, manages credit risk through setting Bank's risk appetite, issuance of credit policies, PPGs and policy circulars and comprehensive portfolio analysis.

Respective Business Heads and their teams undertake comprehensive analysis of all commercial loan applications submitted for approval, more precisely, about ownership and management of business and industry, financials, structure and collaterals. Chief Credit Officer and the team review the loan applications, and identify and measures the credit risks involved in such applications before the same is put up to Delegated Authorities for approval. Business and Credit Units monitors the portfolio on on-going basis to maintain a healthy portfolio.

In the Retail lending business, credit risk is managed through appropriate front-end sales and credit underwriting processes, as well as back-end operational and collection processes. Appropriate product programmes defining customer segments, underwriting standards and security requirements are rolled out to ensure consistency in underwriting and the on-boarding process. The Retail credit portfolio is monitored centrally across products and customer segments. For Wholesale exposures, credit risk is managed by identifying target market segments, structured credit approval processes and robust post-disbursement monitoring and remedial processes. Board approved risk appetite framework and credit policies lay the governing principles for any credit on boarding, underwriting and monitoring of the portfolio.

The Group manages, limits and controls concentration of credit risk wherever it is identified - in particular, to individual counterparties and groups, and to industries and countries. The Group has a Product Program Guide that sets limits of exposure and lending criteria. The Group also has credit limits that set out the lending and borrowing limits to/from other banks.

The Group stratifies the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. The group considers the collateralisation levels, financial position, industry growth prospects, etc., before taking the exposure. Such risks are monitored on an ongoing basis. Limits on the level of credit risk by product, industry sector and by country are approved by the Credit Committee and the Board of Directors.

The Group builds, validates and uses Credit Scoring tools that are populated by internally and externally derived historical data, forward looking models and behavioural models to assess counterparty risk on a customer and portfolio level for some of its Retail products.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Significant increase in credit risk***

The Group monitors all financial assets that are subject to impairment requirements to assess whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the financial asset will be moved to Stage 2 and the loss allowance will be based on lifetime basis (lifetime ECL). The broad level factors that are considered to determine whether a financial asset has experienced SICR are: days past due of more than 30 days on its contractual payments and various other qualitative factors that include changes in current Credit ratings vis-à-vis initial credit ratings as per the defined Graded SICR thresholds (mainly used for non-retail, due from banks and Investment portfolio), Risk Bureau classification of the customer, whether an exposure has been restructured since initial recognition.

The criteria may be rebutted on a case-by-case basis, depending upon actual situation/credit Quality of financial asset/customer.

Internal credit risk ratings

In order to minimize credit risk, the Group has tasked its credit committee to develop and maintain the Group's credit risk grading to categorize exposures mainly for SME and corporate exposures (Non retail portfolio) according to their degree of risk of default. For the purpose of IFRS 9 related notes, Non retail portfolio means Wholesale and Business Banking excluding RAK Business Finance Loans & Retail portfolio includes Auto Loans, Credit Cards, Mortgage Loans, Personal Loans, RAK Business Finance Loans, and Other retail Loans. The credit rating information is based on a wide range of information that is determined to be predictive of the risk of default and applying experienced credit judgement. The nature of the exposure and type of borrower are taken into account in the analysis. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. The table below provides a mapping of the Group's internal credit risk grades to the risk characteristics:

Group's Credit Risk Grades	Internal Description
1 to 4-	Low to fair risk
5+ to 6-	Medium Risk
7+ to 7-	Medium to High Risk
8	Substandard
9	Doubtful
10	Loss

The credit risk grades are designed and calibrated to reflect the risk of default as credit risk deteriorates. As the credit risk increases the difference in risk of default between grades changes. Each Non-retail exposure is allocated to a credit risk grade at initial recognition, based on the available information about the counterparty. All exposures are monitored and the credit risk grade is updated to reflect current information. The monitoring procedures followed are both general and tailored to the type of exposure.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Credit risk (continued)

Internal credit risk ratings (continued)

The following data are typically used to monitor the Group's exposures:

- Payment record, including payment ratios and ageing analysis;
- Extent of utilization of granted limit;
- Forbearances (both requested and granted);
- Changes in business, financial and economic conditions;
- Credit rating information supplied by external rating agencies;
- internally generated data of customer behaviour, affordability metrics etc.(largely for Retail portfolio)
- Other information obtained by periodic review of customer files including audited financial statements review, market data such as prices of credit default swaps (CDS) or quoted bonds where available, changes in the financial sector the customer operates etc.

The Group uses credit risk grades as a primary input into the determination of the term structure of the PD for exposures. The Group collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. The information used is both internal and external depending on the portfolio assessed.

The Group analyses the relevant delinquency data available and using a variety of statistical models then estimates the remaining lifetime PD of exposures and how these are expected to change over time. The factors taken into account in this process include macro-economic data such as, Economic Composite Indicator (ECI), real estate prices, gross domestic product (GDP) UAE annual exports, labour force participation and government consumption expenditure etc. The Group employs experts who use external and internal information to generate 3 scenarios viz. Baseline, Upturn and Downturn and their probabilities (scenario weights). The bank then computes the probability weighted average PD of different scenarios viz. baseline, adverse and upturn which is used in the computation of Expected Credit Loss (ECL). The Group uses the weightings of (40:30:30) for Baseline: Upside: Downturn Scenarios (2021: 40:30:30).

The Group uses different criteria to determine whether credit risk has increased significantly for a counterparty. The criteria used are both quantitative and qualitative, under quantitative criteria Group rely on measures like payment behaviour, i.e. more than 30 days on its contractual payments and various other qualitative factors that include changes in current Credit ratings vis-à-vis initial credit ratings as per the defined Graded SICR thresholds (mainly used for non-retail, due from banks and Investment portfolio), Risk Bureau classification of the customer, Whether an exposure has been restructured since initial recognition. The criteria may be rebutted on a case by case basis, depending upon actual situation/credit Quality of financial asset/customer.

Loan commitments are assessed along with the category of loan the Group is committed to provide, i.e. commitments to provide mortgages are assessed using similar criteria to mortgage loans, while commitments to provide a corporate loan are assessed using similar criteria to corporate loans.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due unless the Group has reasonable and supportable information that demonstrates otherwise.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Credit risk (continued)

Incorporation of forward-looking information

The Group uses forward-looking information that is available without undue cost or effort in its assessment of significant increase of credit risk as well as in its measurement of ECL. The Group employs experts who use external and internal information to generate 3 scenarios viz. Baseline, Upturn and Downturn.

Baseline scenario is considered to be more likely Scenario whereas the other 2 scenarios i.e. upturn and down turn are considered relatively less likely. The bank uses multiple regression approach for arriving at PIT PD by taking into different macroeconomic factors. The bank has calculated the probability weighted average PD of different scenarios viz. baseline, adverse and upturn. Banks uses external independent data sources (Moody's) to get economic data and its forecast in various economic conditions. Additionally the Bank has identified key drivers of credit risk and credit losses for each portfolio of financial instruments. Relationships between macro-economic variables and credit risk and credit losses has been estimated using statistical analysis of historical data.

The Group has performed a sensitivity analysis on how ECL on the main portfolios will change if the key assumptions used to calculate ECL change by 5%. The table below outlines the total ECL per portfolio as at 31 December 2022, if the assumptions used to measure ECL remain as expected (amount as presented in the statement of financial position), as well as if each of the key assumptions used change by plus or minus 5%. The changes are applied in isolation for illustrative purposes, and are applied to each probability-weighted scenarios used to develop the estimate of expected credit losses. In reality, there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios:

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Incorporation of forward-looking information (continued)

					PD (Bucket 0)	PD (Bucket 1)	PD (Stage 2 Life time)	ECL AED'000
Auto Loans								
		Current			2.20%	34.80%	68.97%	7,645
Money & Banking: Claims on		+ [5]%			2.20%	34.80%	68.97%	7,645
Private Sector, (Bil. AED, NSA)		- [5]%			2.20%	34.80%	68.98%	7,646
Implicit Price Deflator: Gross		Current			2.20%	34.80%	68.97%	7,645
Domestic Product, (Index		+ [5]%			2.15%	33.93%	67.25%	7,513
2010=100, NSA)		- [5]%			2.26%	35.69%	70.74%	7,781
		Current			2.20%	34.80%	68.97%	7,645
Real Residential property prices: All		+ [5]%			2.20%	34.80%	68.98%	7,646
dwellings, (Index 2010=100, NSA)		- [5]%			2.20%	34.80%	68.97%	7,645
					PD (Stage 1)	PD (Bucket 1)	PD (Stage 2 Life time)	ECL AED'000
Credit Cards								
Energy: Production - Crude oil		Current			4.27%	-	99.99%	194,241
including lease condensate, (Mil.		+ [5]%			4.26%	-	99.99%	193,981
Bbl per day, NSA)		- [5]%			4.28%	-	99.99%	194,500
National accounts: Expenditure		Current			4.27%	-	99.99%	194,241
approach - Crude oil and natural		+ [5]%			4.26%	-	99.99%	193,761
gas, (Bil. 2010 AED, NSAAR)		- [5]%			4.29%	-	99.99%	194,721
		Current			4.27%	-	99.99%	194,241
International reserves - Official		+ [5]%			4.25%	-	99.99%	193,581
reserve assets, (Bil. USD, NSA)		- [5]%			4.30%	-	99.99%	194,900
		Current			4.27%	-	99.99%	194,241
Real Residential property prices: All		+ [5]%			4.26%	-	99.99%	194,007
dwellings, (Index 2010=100, NSA)		- [5]%			4.28%	-	99.99%	194,475

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Incorporation of forward-looking information (continued)

		PD (Bucket 0)	PD (Bucket 1)	PD (Stage 2 Life time)	ECL AED'000
Personal Loans					
	Current	5.49%	53.39%	95.44%	411,439
Money & Banking: Claims on	+ [5]%	5.47%	53.19%	95.16%	410,523
Private Sector, (Bil. AED, NSA)	- [5]%	5.51%	53.59%	95.72%	412,339
Energy: Production - Crude oil	Current	5.49%	53.39%	95.44%	411,439
including lease condensate, (Mil.	+ [5]%	5.46%	53.08%	95.03%	410,087
Bbl per day, NSA)	- [5]%	5.52%	53.69%	95.85%	412,802
	Current	5.49%	53.39%	95.44%	411,439
	+ [5]%	5.49%	53.37%	95.41%	411,369
Hotel occupancy, (% , SA)	- [5]%	5.49%	53.40%	95.47%	411,509
	Current	5.49%	53.39%	95.44%	411,439
Export weighted GDP - Top 5 export	+ [5]%	5.47%	53.16%	95.13%	410,435
destinations, (Index 2010=100,	- [5]%	5.51%	53.61%	95.75%	412,450
SA)					
Mortgage Loans					
Effective Exchange Rate - Real	Current	0.99%	24.77%	99.99%	179,469
Broad Index, (Index 2010=100,	+ [5]%	1.00%	24.89%	99.99%	179,507
NSA)	- [5]%	0.99%	24.65%	99.99%	179,430
Energy: Production - Crude oil	Current	0.99%	24.77%	99.99%	179,469
including lease condensate, (Mil.	+ [5]%	0.98%	24.58%	99.99%	179,413
Bbl per day, NSA)	- [5]%	1.00%	24.96%	99.99%	179,524
National accounts: Expenditure	Current	0.99%	24.77%	99.99%	179,469
approach - Non-oil sector, (Bil.	+ [5]%	0.97%	24.30%	99.99%	179,327
2010 AED, NSAAR)	- [5]%	1.01%	25.24%	99.99%	179,611
House Prices: Residential	Current	0.99%	24.77%	99.99%	179,469
properties - Abu Dhabi and Dubai,	+ [5]%	0.98%	24.58%	99.99%	179,412
(Index 2010=100, NSA)	- [5]%	1.00%	24.96%	99.99%	179,525

Classification: RAKBANK-Public

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Incorporation of forward-looking information (continued)

		PD (Bucket 0)	PD (Bucket 1)	PD (Stage 2 Life time)	ECL
RAK Business Loans					
Energy: Production - Crude oil Current including lease condensate, (Mil. +[5]% Bbl per day, NSA) -[5]%		7.80%	82.15%	99.99%	434,429
		7.76%	81.80%	99.99%	433,684
		7.83%	82.50%	99.99%	435,180
Export weighted real imports - Top 5 Current export destinations, (Index +[5]% 2010=100, SA) -[5]%		7.80%	82.15%	99.99%	434,429
		7.72%	81.31%	99.99%	432,642
		7.88%	83.00%	99.99%	436,250
Implicit Price Deflator: Gross Current Domestic Product, (Index +[5]% 2010=100, NSA) -[5]%		7.80%	82.15%	99.99%	434,429
		6.17%	64.98%	93.45%	395,853
		9.85%	96.83%	99.99%	479,061
Non-Retail loans (Wholesale Banking and other Business Banking loans)					
Hotel occupancy, (% , SA) Current +[5]%		-	-	-	815,857
		-	-	-	811,355
		-	-	-	820,436
National accounts: Expenditure Current approach - Crude oil and natural +[5]%		-	-	-	815,857
		-	-	-	812,014
	gas, (Bil. 2010 AED, NSAAR) -[5]%	-	-	-	819,755

The impact is of change in each variable while other variables are kept constant. ECL is calculated by changing +/-5% of the forecast values of macro economic variables to all three scenarios, for each variable keeping other variables constant. PD's are weighted by scenario probabilities.

PD Bucket 0 : customers with no past dues are classified in bucket 0;

PD Bucket 1 : customers with past dues up-to 29 days are classified in bucket 1;

PD Stage 2: customers with significant increase in credit risk

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Measurement of ECL

The key inputs used for measuring ECL are:

- Probability of default (PD);
- Loss given default (LGD); and
- Exposure at default (EAD).

As explained above these figures are derived from internally developed statistical models and other historical data and they are adjusted to reflect probability-weighted forward-looking information.

PD is an estimate of the likelihood of default over a given time horizon. It is estimated as at a point in time. The calculation is based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on market data (where available), as well as internal data comprising both quantitative and qualitative factors. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates. The estimation is based on current conditions, adjusted to take into account estimates of future conditions that will impact PD.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from any collateral. The LGD models for secured assets consider forecasts of future collateral valuation taking into account sale discounts, time to realization of collateral, cross- collateralization and seniority of claim, cost of realization of collateral and cure rates (i.e. exit from non-performing status). LGD models for unsecured assets consider time of recovery, recovery rates and seniority of claims. The calculation is on a discounted cash flow basis, where the cash flows are discounted by the original EIR of the loan. Regulatory LGDs are taken for portfolios with limited historic data.

EAD is an estimate of the current exposure for funded facilities. For non-funded facilities the EAD is taken as the product of the applicable credit conversion factors and contract values. Exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities. The Group's modelling approach for EAD reflects expected changes in the balance outstanding over the lifetime of the loan exposure that are permitted by the current contractual terms, such as amortization profiles, early repayment or overpayment, changes in utilization of undrawn commitments and credit mitigation actions taken before default. The Group uses EAD models that reflect the characteristics of the portfolios.

41. Financial risk management (continued)

Measurement of ECL (continued)

The Group measures ECL considering the risk of default over the maximum contractual period (including extension options) over which the entity is exposed to credit risk and not a longer period, even if contract extension or renewal is common business practice. However, for financial instruments such as credit cards, revolving credit facilities and overdraft facilities that include both a loan and an undrawn commitment component, the Group's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Group's exposure to credit losses to the contractual notice period.

For such financial instruments the Group measures ECL over the period that it is exposed to credit risk and ECL would not be mitigated by credit risk management actions, even if that period extends beyond the maximum contractual period. These financial instruments do not have a fixed term or repayment structure and have a short contractual cancellation period. However, the Group does not enforce in the normal day-to-day management the contractual right to cancel these financial instruments. This is because these financial instruments are managed on a collective basis and are cancelled only when the Group becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Group expects to take to mitigate ECL, e.g. reduction in limits or cancellation of the loan commitment.

Groupings based on shared risks characteristics

When ECL are measured on a collective basis, the financial instruments are grouped based on shared risk characteristics, such as:

- Instrument type;
- Credit risk grade;
- Collateral type;

The groupings are reviewed on a regular basis to ensure that each group is comprised of homogenous exposures.

The Group uses external benchmark information for portfolios with limited historical data and for low default portfolios where there is no instances of historical default.

The Group has in place policies, which govern the determination of eligibility of various collateral including credit protection, to be considered for credit risk mitigation, which includes the minimum operational requirements that are required for the specific collateral to be considered as effective risk mitigating. The Group's major collaterals are mortgaged properties, investments, vehicles and other register-able assets.

The collateral is valued periodically ranging from quarterly to annually, depending on the type of collateral. Specifically for mortgaged property, a framework for valuation of mortgaged properties is established to ensure adequate policies and procedures are in place for efficient and proper conduct of valuation of mortgaged properties and other related activities in relation to the interpretation, monitoring and management of valuation of mortgaged properties.

41. Financial risk management (continued)***Measurement of ECL (continued)***

The following table contains an analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e. FVPL) as at 31 December.

	Maximum exposure to credit risk	
	2022	2021
	AED '000	AED '000
Securities quoted at fair value through profit or loss:		
Quoted funds	66,071	131,577
Unquoted funds	41,425	43,842
Quoted debt securities	-	61,457
Derivatives assets		
Trading derivatives	490,627	183,915

As at 31 December 2022, margin money of AED 214.1 million (31 December 2021: AED 24.4 million) have been held as collateral against trading derivatives.

The Group has used the updated macro-economic forecasts for the year and used the weightings of (40:30:30) for Baseline: Upside: Downside scenarios. The sensitivity to 10% increase in Downside Scenario, with a corresponding decrease of 10% in Upside scenario is AED 30.3 million as of 31 December 2022.

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41 Financial risk management (continued)***Maximum exposure to credit risk before collateral held or other credit enhancements:*

Maximum Credit Risk Exposure as at 31 December 2022

Particular	AED '000			
Rating grid wise	Stage 1	Stage 2	Stage 3	Total
Due from other banks				
1 to 4-	3,693,198	-	-	3,693,198
5+ to 6-	7,765,546	-	-	7,765,546
7+ to 7-	51,366	3,509	-	54,875
Total	11,510,110	3,509	-	11,513,619
Loans and Advances				
1 to 4-	5,723,116	966	-	5,724,082
5+ to 6-	8,819,014	224,943	-	9,043,957
7+ to 7-	46,097	672,708	750	719,555
8 to 10	-	-	437,867	437,867
Unrated	21,042,949	412,025	763,884	22,218,858
Total	35,631,176	1,310,642	1,202,501	38,144,319
Investment securities (at amortized costs and FVOCI)				
AA to AA-	2,891,128	-	-	2,891,128
A+ to A-	1,328,241	-	-	1,328,241
BBB+ to BBB-	3,482,143	-	-	3,482,143
BB+ to BB-	1,521,744	-	-	1,521,744
B+ to B-	1,218,377	-	-	1,218,377
D	-	-	168,052	168,052
Unrated	436,097	17,447	51,841	505,385
Total Amount	10,877,730	17,447	219,893	11,115,070
Customer Acceptances				
1 to 4-	97,870	16,670	-	114,540
5+ to 6-	30,358	1,075	-	31,433
Total	128,228	17,745	-	145,973
Off balance sheet items				
1 to 4-	3,771,505	6,729	-	3,778,234
5+ to 6-	1,127,857	8,888	-	1,136,745
7+ to 7-	6,428	12,648	25	19,101
8 to 10	-	-	2,220	2,220
Unrated	58,479	-	-	58,479
Total	4,964,269	28,265	2,245	4,994,779

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)****Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)**

Maximum Credit Risk Exposure as at 31 December 2021

Particular	AED '000			
Rating grid wise	Stage 1	Stage 2	Stage 3	Total
Due from other banks				
1 to 4-	1,367,984	277,525	-	1,645,509
5+ to 6-	5,909,044	376,138	-	6,285,182
7+ to 7-	503,533	33,899	-	537,432
Total	7,780,561	687,562	-	8,468,123
Loans and Advances				
1 to 4-	3,714,998	39,522	-	3,754,520
5+ to 6-	8,208,041	812,329	568	9,020,938
7+ to 7-	23,485	385,815	1,247	410,547
8 to 10	-	-	479,610	479,610
Unrated	20,358,796	458,523	973,521	21,790,840
Total	32,305,320	1,696,188	1,454,947	35,456,455
Investment securities (at amortized costs and FVOCI)				
AA to AA-	1,501,164	-	-	1,501,164
A+ to A-	1,056,032	-	-	1,056,032
BBB+ to BBB-	1,894,580	138,979	-	2,033,559
BB+ to BB	1,447,315	25,575	-	1,472,890
B+ to B-	2,214,138	-	-	2,214,138
CCC+ to C	-	163,607	-	163,607
Unrated	452,589	2,938	-	455,527
Total Amount	8,565,818	331,099	-	8,896,917
Customer Acceptances				
1 to 4-	28,346	-	-	28,346
5+ to 6-	32,222	7,000	-	39,222
Total	60,568	7,000	-	67,568
Off balance sheet items				
1 to 4-	2,971,431	2,722	-	2,974,153
5+ to 6-	1,399,261	12,024	-	1,411,285
7+ to 7-	21,303	7,266	-	28,569
8 to 10	-	-	1,156	1,156
Unrated	40,342	-	-	40,342
Total	4,432,337	22,012	1,156	4,455,505

41. Financial risk management (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)

Investment securities

Investment securities comprise debt securities issued by the Government, organisations which are quasi-governmental and local and foreign reputable organisations.

The table below presents an analysis of debt securities by external ratings from credit rating agencies at 31 December 2022 and 2021:

	2022	2021
	AED'000	AED'000
AA to AA-	2,909,701	1,501,109
A+ to A-	1,355,965	1,074,012
BBB+ to BBB-	3,491,732	2,040,126
BB+ to BB	1,557,856	1,500,015
B+ to B-	1,221,025	2,205,653
CCC+ to C	-	149,937
D	73,436	-
Unrated	361,227	462,593
	10,970,942	8,933,445

Concentration of risks of financial assets with credit risk exposure

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to limit concentrations of exposures to counterparties, geographies and industries. Identified concentration of credit risk is controlled and managed accordingly.

Geographical risk concentration

The following table breaks down the Group's credit exposures at their carrying amounts, categorised by geographical region as of 31 December 2022 and 2021.

For this table, the Group has allocated exposures to regions based on the country of domicile of its counterparties:

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)***Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)*On balance sheet items

	UAE AED'000	OECD AED'000	Others AED'000	Provision for credit loss AED'000	Total AED'000
31 December 2022					
Due from other banks, net	357,897	3,128,153	8,027,569	(57,298)	11,456,321
Loans and advances, net	34,932,186	629,007	2,583,126	(2,073,052)	36,071,267
Insurance contract assets, net	233,112	3,101	5,793	(29,048)	212,958
Customer acceptances	145,973	-	-	-	145,973
Investment securities measured at amortised cost	3,087,079	668,715	3,523,136	(57,124)	7,221,806
Investment securities measured at fair value	1,844,460	143,431	2,254,351	--	4,242,242
Total	40,600,707	4,572,407	16,393,975	(2,216,522)	59,350,567
31 December 2021					
Due from other banks, net	258,683	2,547,750	5,661,690	(39,269)	8,428,854
Loans and advances, net	32,406,900	494,611	2,554,944	(1,893,208)	33,563,247
Insurance contract assets, net	279,351	21,383	15,475	(32,575)	283,634
Customer acceptances	65,305	-	2,263		67,568
Investment securities measured at amortised cost	1,275,876	414,704	2,901,416	(24,940)	4,567,056
Investment securities measured at fair value	2,143,355	160,447	2,595,065	-	4,898,867
Total	36,429,470	3,638,895	13,730,853	(1,989,992)	51,809,226

Classification: RAKBANK-Public

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Maximum exposure to credit risk before collateral held or other credit enhancements: (continued)

The following table breaks down the Bank's credit exposures on loans and advances, investment securities, due from other banks and off balance sheet items categorised by industry as of 31 December 2022 and 2021:

	On balance sheet items					
	Loans and advances AED'000	Investment securities AED'000	Due from other banks AED'000	Total funded AED'000	Off balance sheet Items AED'000	Total AED'000
31 December 2022						
Agriculture, fishing & related activities	4,539	56,042	-	60,581	54	60,635
Crude oil, gas, mining & quarrying	185,285	239,178	-	424,463	26,227	450,690
Manufacturing	2,335,747	570,985	-	2,906,732	260,113	3,166,845
Electricity & water	807,543	963,711	-	1,771,254	313,309	2,084,563
Construction and real estate	2,349,220	460,055	-	2,809,275	799,769	3,609,044
Trading	4,534,461	-	-	4,534,461	841,000	5,375,461
Transport, storage & communication	2,845,584	604,427	-	3,450,011	1,370,810	4,820,821
Financial institutions	1,472,440	4,081,357	11,513,619	17,067,416	945,660	18,013,076
Services	2,994,623	507,371	-	3,501,994	1,170,131	4,672,125
Government	507,466	4,038,046	-	4,545,512	3,403	4,548,915
Retail and consumer banking	20,107,411	-	-	20,107,411	1,210	20,108,621
Total exposures	38,144,319	11,521,172	11,513,619	61,179,110	5,731,686	66,910,796
Provision for credit loss	(2,073,052)	(57,124)	(57,298)	(2,187,474)	(27,018)	(2,214,492)
Net exposures	36,071,267	11,464,048	11,456,321	58,991,636	5,704,668	64,696,304
31 December 2021						
Agriculture, fishing & related activities	2,232	-	-	2,232	54	2,286
Crude oil, gas, mining & quarrying	185,164	68,725	-	253,889	244,646	498,535
Manufacturing	2,388,750	465,086	-	2,853,836	90,697	2,944,533
Electricity & water	9,989	682,575	-	692,564	183,545	876,109
Construction and real estate	2,097,195	562,087	-	2,659,282	716,069	3,375,351
Trading	3,656,972	-	-	3,656,972	1,363,952	5,020,924
Transport, storage & communication	1,291,286	672,298	-	1,963,584	887,084	2,850,668
Financial institutions	1,917,052	3,028,891	8,468,123	13,414,066	710,715	14,124,781
Services	3,989,699	574,477	-	4,564,176	975,117	5,539,293
Government	156,247	3,436,724	-	3,592,971	1,000	3,593,971
Retail and consumer banking	19,761,869	-	-	19,761,869	9,531	19,771,400
Total exposures	35,456,455	9,490,863	8,468,123	53,415,441	5,182,410	58,597,851
Provision for credit loss	(1,893,208)	(24,940)	(39,269)	(1,957,417)	(9,178)	(1,966,595)
Net exposures	33,563,247	9,465,923	8,428,854	51,458,024	5,173,232	56,631,256

Classification: RAKBANK-Public

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Credit quality***

The Group monitors credit risk per class of financial instrument. The table below outlines the classes identified, as well as the financial statement line item and the note that provides an analysis of the items included in the financial statement line for each class of financial instrument:

<i>Class of financial instrument</i>	<i>Notes</i>
Due from other banks	5
Wholesale banking loans and advances	6
Business banking loans and advances	6
Retail banking Loans and advances	6
Investment securities measured at fair value	7
Investment securities measured at amortised cost	7
Insurance contract assets and receivables	8

An analysis of the Group's credit risk exposure without taking into account the effects of any collateral or other credit enhancements is provided in the following tables. Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively.

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)***Exposure stage transitions*

Loans and advances	31 December 2022			AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2022	32,305,320	1,696,188	1,454,947	35,456,455
Stage Transfer				
Stage 1 to Stage 2 Transfer	(1,178,528)	1,178,528	-	-
Stage 2 to Stage 3 Transfer	-	(627,848)	627,848	-
Stage 2 to Stage 1 Transfer	358,719	(358,719)	-	-
Stage 3 to Stage 2 Transfer	-	42,874	(42,874)	-
Change in Exposures during the year	(11,339,403)	(837,137)	(446,360)	(12,622,900)
New Financial Assets Originated	15,485,068	216,756	131,126	15,832,950
Write offs	-	-	(522,186)	(522,186)
Closing Balance 31 December 2022	35,631,176	1,310,642	1,202,501	38,144,319

Loans and advances	31 December 2021			AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	29,066,958	2,419,862	1,774,016	33,260,836
Stage Transfer				
Stage 1 to Stage 2 Transfer	(3,372,829)	3,372,829	-	-
Stage 2 to Stage 3 Transfer	-	(1,695,346)	1,695,346	-
Stage 2 to Stage 1 Transfer	1,152,809	(1,152,809)	-	-
Stage 3 to Stage 2 Transfer	-	171,554	(171,554)	-
Change in Exposures during the year	(14,944,666)	(1,419,902)	(415,979)	(16,780,547)
New Financial Assets Originated	20,403,048	-	-	20,403,048
Write offs	-	-	(1,426,882)	(1,426,882)
Closing Balance 31 December 2021 (Restated)	32,305,320	1,696,188	1,454,947	35,456,455

Classification: RAKBANK-Public

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

41. Financial risk management (continued)

Investment securities – FVOCI*	31 December 2022			AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2022	4,147,291	157,630	-	4,304,921
Stage Transfer				
Stage 1 to Stage 2 Transfer	(37,475)	37,475	-	-
Stage 2 to Stage 3 Transfer	-	(74,984)	74,984	-
Stage 2 to Stage 1 Transfer	82,646	(82,646)	-	-
Change in Exposures during the year	(1,686,898)	(37,475)	107,901	(1,616,472)
New Financial Assets Originated	1,147,691	-	-	1,147,691
Closing Balance 31 December 2022	3,653,255	-	182,885	3,836,140

Investment securities – FVOCI*	31 December 2021			AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	2,978,737	224,332	11,516	3,214,585
Stage Transfer				
Stage 1 to Stage 2 Transfer	36,060	(36,060)	-	-
Change in Exposures during the year	(2,773,527)	(30,642)	(11,516)	(2,815,685)
New Financial Assets Originated	3,906,021	-	-	3,906,021
Closing Balance 31 December 2021	4,147,291	157,630	-	4,304,921

* Exposures are gross of IFRS 9 provisions held

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)***Exposure stage transitions (continued)*

Investment securities - Amortized Cost	31 December 2022			AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2022	4,418,527	173,469	-	4,591,996
Stage Transfer				
Stage 2 to Stage 3 Transfer	-	(37,184)	37,184	-
Stage 2 to Stage 1 Transfer	81,908	(81,908)	-	-
Change in Exposures during the year	(767,495)	(36,930)	(176)	(804,601)
New Financial Assets Originated	3,491,535	-	-	3,491,535
Closing Balance 31 December 2022	7,224,475	17,447	37,008	7,278,930

Investment securities - Amortized Cost	31 December 2021			AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	3,861,486	462,223	-	4,323,709
Stage Transfer				
Stage 1 to Stage 2 Transfer	309,413	(309,413)	-	-
Change in Exposures during the year	(660,743)	20,659	-	(640,084)
New Financial Assets Originated	908,371	-	-	908,371
Closing Balance 31 December 2021	4,418,527	173,469	-	4,591,996

* Exposures are gross of IFRS 9 provisions held

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)***Exposure stage transitions (continued)*

Due from banks	31 December 2022			AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2022	7,780,561	687,562	-	8,468,123
Stage Transfers				
Stage 2 to Stage 1 transfer	616,932	(616,932)	-	-
Change in Exposures during the year	(3,157,673)	(67,121)	-	(3,224,794)
New Financial Assets Originated	6,270,290	-	-	6,270,290
Closing Balance 31 December 2022	11,510,110	3,509	-	11,513,619

Due from banks	31 December 2021			AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2021	5,516,681	1,081,528	-	6,598,209
Stage Transfers				
Stage 1 to Stage 2 transfer	(716,195)	716,195	-	-
Stage 2 to Stage 1 transfer	250,819	(250,819)	-	-
Change in Exposures during the year	(4,319,878)	(859,342)	-	(5,179,220)
New Financial Assets Originated	7,049,134	-	-	7,049,134
Closing Balance 31 December 2021	7,780,561	687,562	-	8,468,123

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)****Exposure stage transitions (continued)**

Customer Acceptances	31 December 2022			AED 000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2022	60,568	7,000	-	67,568
Stage Transfers				
Stage 1 to Stage 2 Transfer	(14,412)	14,412	-	-
Change in Exposures during the year	(31,645)	(3,667)	-	(35,312)
New Financial Assets Originated	113,717	-	-	113,717
Closing Balance 31 December 2022	128,228	17,745	-	145,973

Customer Acceptances	31 December 2021			AED 000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2021	100,814	16,051	-	116,865
Stage Transfers				
Stage 1 to Stage 2 Transfer	(7,000)	7,000	-	-
Change in Exposures during the year	(66,631)	(16,051)	-	(82,682)
New Financial Assets Originated	33,385	-	-	33,385
Closing Balance 31 December 2021	60,568	7,000	-	67,568

Off balance sheet items and irrevocable Commitments	31 December 2022			AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2022	4,432,337	22,012	1,156	4,455,505
Stage Transfer				
Stage 1 to Stage 2 Transfer	(28,566)	28,566	-	-
Stage 1 to Stage 3 Transfer	(169)	-	169	-
Stage 2 to Stage 3 Transfer	-	(1,521)	1,521	-
Stage 2 to Stage 1 Transfer	5,343	(5,343)	-	-
Change in Exposures during the year	(1,857,013)	(15,449)	(601)	(1,873,063)
New Financial Assets Originated	2,412,337	-	-	2,412,337
Closing Balance 31 December 2022	4,964,269	28,265	2,245	4,994,779

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)****Exposure stage transitions (continued)**

Off balance sheet items and irrevocable Commitments	31 December 2021			AED'000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	3,145,700	72,403	180	3,218,283
Stage Transfer				
Stage 1 to Stage 2 Transfer	(13,390)	13,390	-	-
Stage 2 to Stage 3 Transfer	-	(1,025)	1,025	-
Stage 2 to Stage 1 Transfer	24,115	(24,115)	-	-
Stage 3 to Stage 2 Transfer	-	-	-	-
Change in Exposures during the year	(2,760,792)	(38,641)	(49)	(2,799,482)
New Financial Assets Originated	4,036,704	-	-	4,036,704
Closing Balance 31 December 2021	4,432,337	22,012	1,156	4,455,505

Insurance contract assets and other receivables	31 December 2022			AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2022	177,774	-	-	177,774
Change in Exposures	(47,908)	-	-	(47,908)
Write offs	(12,175)	-	-	(12,175)
Closing Balance 31 December 2022	117,691	-	-	117,691

Insurance contract assets and other receivables	31 December 2021			AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2021	170,857	-	-	170,857
Change in Exposures	31,432	-	-	31,432
Write offs	(24,515)	-	-	(24,515)
Closing Balance 31 December 2021	177,774	-	-	177,774

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)***Exposure stage transitions (continued)***Changes in the gross carrying for loans and advances at amortized cost**

	31 December 2022			
Wholesale Banking segment Loans	Stage 1	Stage 2	Stage 3	Grand Total
	AED'000	AED'000	AED'000	AED'000
Opening balance as at 1 January 2022	8,119,997	377,497	193,253	8,690,747
Stage 1 to Stage 2 Transfer	(23,303)	23,303	-	-
Stage 2 to Stage 3 Transfer	-	(56,126)	56,126	-
Stage 2 to Stage 1 Transfer	117,977	(117,977)	-	-
Change in Exposures during the year	(3,966,229)	(141,292)	(90,128)	(4,197,649)
New Financial Assets Originated	5,766,579	17,305	4,711	5,788,595
Write offs	-	-	(1,880)	(1,880)
Closing balance as at 31 December 2022	10,015,021	102,710	162,082	10,279,813

	31 December 2021			
Wholesale Banking segment Loans	Stage 1	Stage 2	Stage 3	Grand Total
	AED'000	AED'000	AED'000	AED'000
Opening balance as at 1 January 2021	6,655,170	256,056	251,196	7,162,422
Stage 1 to Stage 2 Transfer	(564,383)	564,383	-	-
Stage 2 to Stage 3 Transfer	-	(76,046)	76,046	-
Stage 2 to Stage 1 Transfer	49,693	(49,693)	-	-
Stage 3 to Stage 2 Transfer	-	-	-	-
Change in Exposures during the year	(6,373,976)	(317,203)	(82,015)	(6,773,194)
New Financial Assets Originated	8,353,493	-	-	8,353,493
Write offs	-	-	(51,974)	(51,974)
Closing balance as at 31 December 2021	8,119,997	377,497	193,253	8,690,747

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

41. Financial risk management (continued)

Exposure stage transitions (continued)

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2022			
Business Banking segment Loans	Stage 1	Stage 2	Stage 3	Grand Total
	AED'000	AED'000	AED'000	AED'000
Opening balance as at 1 January 2022	6,544,039	918,063	591,099	8,053,201
Stage 1 to Stage 2 Transfer	(659,269)	659,269	-	-
Stage 2 to Stage 3 Transfer	-	(262,601)	262,601	-
Stage 2 to Stage 1 Transfer	103,479	(103,479)	-	-
Stage 3 to Stage 2 Transfer	-	9,273	(9,273)	-
Change in Exposures during the year	(2,043,351)	(504,461)	(153,963)	(2,701,775)
New Financial Assets Originated	3,716,264	123,160	84,591	3,924,015
Write offs	-	-	(226,220)	(226,220)
Closing balance as at 31 December 2022	7,661,162	839,224	548,835	9,049,221

	31 December 2021			
Business Banking segment Loans	Stage 1	Stage 2	Stage 3	Grand Total
	AED'000	AED'000	AED'000	AED'000
Opening balance as at 1 January 2021	6,303,700	1,395,243	616,587	8,315,530
Stage 1 to Stage 2 Transfer	(1,380,831)	1,380,831	-	-
Stage 2 to Stage 3 Transfer	-	(602,398)	602,398	-
Stage 2 to Stage 1 Transfer	496,005	(496,005)	-	-
Stage 3 to Stage 2 Transfer	-	23,464	(23,464)	-
Change in Exposures during the year	(3,389,527)	(783,072)	(104,286)	(4,276,885)
New Financial Assets Originated	4,514,692	-	-	4,514,692
Write offs	-	-	(500,136)	(500,136)
Closing balance as at 31 December 2021	6,544,039	918,063	591,099	8,053,201

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

41. Financial risk management (continued)

Exposure stage transitions (continued)

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2022			
Retail Banking segment Loans	Stage 1	Stage 2	Stage 3	Grand Total
	AED'000	AED'000	AED'000	AED'000
Opening balance as at 1 January 2022	17,641,284	400,628	670,595	18,712,507
Stage 1 to Stage 2 Transfer	(495,956)	495,956	-	-
Stage 2 to Stage 3 Transfer	-	(309,121)	309,121	-
Stage 2 to Stage 1 Transfer	137,263	(137,263)	-	-
Stage 3 to Stage 2 Transfer	-	33,601	(33,601)	-
Change in Exposures during the year	(5,329,822)	(191,384)	(202,270)	(5,723,476)
New Financial Assets Originated	6,002,225	76,291	41,824	6,120,340
Write offs	-	-	(294,086)	(294,086)
Closing balance as at 31 December 2022	17,954,994	368,708	491,583	18,815,285

Changes in the gross carrying for loans and advances at amortized cost

	31 December 2021			
Retail Banking segment Loans	Stage 1	Stage 2	Stage 3	Grand Total
	AED'000	AED'000	AED'000	AED'000
Opening balance as at 1 January 2021	16,108,088	768,563	906,233	17,782,884
Stage 1 to Stage 2 Transfer	(1,427,615)	1,427,615	-	-
Stage 2 to Stage 3 Transfer	-	(1,016,902)	1,016,902	-
Stage 2 to Stage 1 Transfer	607,111	(607,111)	-	-
Stage 3 to Stage 2 Transfer	-	148,090	(148,090)	-
Change in Exposures during the year	(5,181,163)	(319,627)	(229,678)	(5,730,468)
New Financial Assets Originated	7,534,863	-	-	7,534,863
Write offs	-	-	(874,772)	(874,772)
Closing balance as at 31 December 2021 (Restated)	17,641,284	400,628	670,595	18,712,507

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Movement of the provision for credit loss***

Summary of provision for credit loss and net movement on the financial instruments by category are as follows:

Particulars

	1 January 2022 AED '000	Net change during the year AED '000	Other Movement AED '000	31 December 2022 AED '000
Due from other banks	39,269	18,029	-	57,298
Loans and Advances	1,893,208	702,030	(522,186)	2,073,052
Investment Securities - FVOCI	24,929	118,564	635	144,128
Investment Securities – amortised cost	24,940	32,184	-	57,124
Insurance contract assets and receivables	32,575	8,648	(12,175)	29,048
Customer Acceptances	247	435	-	682
Off balance sheet items	9,178	17,840	-	27,018
Total	2,024,346	897,730	(533,726)	2,388,350

The tables below analyse the movement of the provision for credit loss during the year per class of financial assets:

Due from banks

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Grand Total AED '000
Opening balance 1 January 2022	33,549	5,720	-	39,269
Stage Transfers				
Stage 2 to Stage 1 transfer	3,991	(3,991)	-	-
Due to changes in PD's/ LGD's/ EAD	(6,627)	(1,584)	-	(8,211)
Due to new financial assets originated	26,240	-	-	26,240
Closing Balance 31 December 2022	57,153	145	-	57,298

Due from banks

	Stage 1 AED '000	Stage 2 AED '000	Stage 3 AED '000	Grand Total AED '000
Opening balance 1 January 2021	17,427	18,391	-	35,818
Stage Transfers				
Stage 1 to Stage 2 transfer	(7,089)	7,089	-	-
Stage 2 to Stage 1 transfer	2,283	(2,283)	-	-
Due to changes in PD's/ LGD's/ EAD	(22,629)	(17,477)	-	(40,106)
Due to new financial assets originated	43,557	-	-	43,557
Closing Balance 31 December 2021	33,549	5,720	-	39,269

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)***Movement of the provision for credit loss (continued)*

Loans and advances	AED '000			Grand Total
	Stage 1	Stage 2	Stage 3	
Opening Balance 1 January 2022	682,854	300,583	909,771	1,893,208
Stage Transfer				
Stage 1 to Stage 2 Transfer	(288,982)	288,982	-	-
Stage 2 to Stage 3 Transfer	-	(205,887)	205,887	-
Stage 2 to Stage 1 Transfer	51,123	(51,123)	-	-
Stage 3 to Stage 2 Transfer	-	22,322	(22,322)	-
Due to changes in PD's/ LGD's/ EAD	(24,466)	38,749	209,980	224,263
Due to new financial assets originated	283,064	82,012	112,691	477,767
Write offs	-	-	(522,186)	(522,186)

Closing Balance 31 December 2022	703,593	475,638	893,821	2,073,052
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Loans and advances	AED '000			Grand Total
	Stage 1	Stage 2	Stage 3	
Opening Balance 1 January 2021	683,535	581,402	894,505	2,159,442
Stage Transfer				
Stage 1 to Stage 2 Transfer	(639,599)	639,599	-	-
Stage 2 to Stage 3 Transfer	-	(688,862)	688,862	-
Stage 2 to Stage 1 Transfer	368,293	(368,293)	-	-
Stage 3 to Stage 2 Transfer	-	73,374	(73,374)	-
Due to changes in PD's/ LGD's/ EAD	(477,814)	63,363	826,660	412,209
Due to new financial assets originated	748,439	-	-	748,439
Write offs	-	-	(1,426,882)	(1,426,882)

Closing Balance 31 December 2021	682,854	300,583	909,771	1,893,208
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Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)***Movement of the provision for credit loss (continued)*

Investment securities - FVOCI	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2022	10,943	13,986	-	24,929
Stage Transfer				
Stage 1 to Stage 2 Transfer	(106)	106	-	-
Stage 2 to Stage 3 Transfer	-	(13,670)	13,670	-
Stage 2 to Stage 1 Transfer	317	(317)	-	-
Due to changes in PD's/ LGD's/ EAD	(4,659)	(105)	122,642	117,878
Due to new financial assets originated	1,321	-	-	1,321
Closing Balance 31 December 2022	7,816	-	136,312	144,128

Investment securities - FVOCI	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2021	9,295	13,384	241	22,920
Stage Transfer				
Stage 1 to Stage 2 Transfer	863	(863)	-	-
Due to changes in PD's/ LGD's/ EAD	(14,874)	1,465	(241)	(13,650)
Due to new financial assets originated	15,659	-	-	15,659
Less: other movements	-	-	-	-
Closing Balance 31 December 2021	10,943	13,986	-	24,929

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Movement of the provision for credit loss (continued)*****Investment securities - Amortized Cost**

	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2022	9,957	14,983	-	24,940
Stage Transfer				
Stage 2 to Stage 3 Transfer	-	(3,474)	3,474	-
Stage 2 to Stage 1 Transfer	1,146	(1,146)	-	-
Due to changes in PD's/ LGD's/ EAD	(1,556)	(1,180)	25,910	23,174
Due to new financial assets originated	9,010	-	-	9,010
Closing Balance 31 December 2022	18,557	9,183	29,384	57,124

Investment securities - Amortized Cost

	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2021	5,997	16,048	-	22,045
Stage Transfer				
Stage 1 to Stage 2 Transfer	6,432	(6,432)	-	-
Due to changes in PD's/ LGD's/ EAD	(9,006)	5,367	-	(3,639)
Due to new financial assets originated	6,534	-	-	6,534
Less: other movements				
Closing Balance 31 December 2021	9,957	14,983	-	24,940

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)***Movement of the provision for credit loss (continued)*

Customer Acceptances	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening balance 1 January 2022	216	31	-	247
Stage Transfer				
Stage 1 to Stage 2 Transfer	(88)	88	-	-
Due to changes in PD's/ LGD's/ EAD	101	(39)	-	62
Due to new financial assets originated	373	-	-	373
Closing Balance as at 31 December 2022	602	80	-	682

Customer Acceptances	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening balance 1 January 2021	121	54	-	175
Stage Transfer				
Stage 1 to Stage 2 Transfer	(31)	31	-	-
Due to changes in PD's/ LGD's/ EAD	(22)	(54)	-	(76)
Due to new financial assets originated	148	-	-	148
Closing Balance as at 31 December 2021	216	31	-	247

Off balance sheet items and irrevocable Commitments	Stage 1	Stage 2	Stage 3	AED '000 Grand Total
Opening Balance 1 January 2022	8,561	573	44	9,178
Stage Transfer				
Stage 1 to Stage 2 Transfer	(442)	442	-	-
Stage 2 to Stage 3 Transfer	-	(3)	3	-
Stage 2 to Stage 1 Transfer	7	(7)	-	-
Due to changes in PD's/ LGD's/ EAD	9,439	(93)	337	9,683
Due to new financial assets originated	8,157	-	-	8,157
Closing Balance 31 December 2022	25,722	912	384	27,018

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Movement of the provision for credit loss (continued)***

Off balance sheet items and irrevocable Commitments				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening Balance 1 January 2021	10,372	436	44	10,852
Stage Transfer				
Stage 1 to Stage 2 Transfer	(16)	16	-	-
Stage 2 to Stage 1 Transfer	58	(58)	-	-
Due to changes in PD's/ LGD's/ EAD	(5,454)	179	-	(5,275)
Due to new financial assets originated	3,601	-	-	3,601
Closing Balance 31 December 2021	8,561	573	44	9,178

Insurance Contract Assets and other receivables				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2022	32,575	-	-	32,575
Due to changes in PD's/ LGD's/ EAD	8,648	-	-	8,648
Write offs	(12,175)	-	-	(12,175)
Closing Balance 31 December 2022	29,048	-	-	29,048

Insurance Contract Assets and other receivables				AED '000
	Stage 1	Stage 2	Stage 3	Grand Total
Opening balance 1 January 2021	54,708	-	-	54,708
Due to changes in PD's/ LGD's/ EAD	2,382	-	-	2,382
Other movements (No P&L impact)	(24,515)	-	-	(24,515)
Closing Balance 31 December 2021	32,575	-	-	32,575

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Movement of the provision for credit loss (continued)***

	31 December 2022			
Wholesale Banking segment Loans	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Grand total AED'000
Opening balance as at 1 January 2022	70,572	38,820	134,064	243,456
Transfer from Stage 1 to Stage 2	(6,860)	6,860	-	-
Transfer from Stage 2 to Stage 3		(13,821)	13,821	-
Transfer from Stage 2 to Stage 1	3,026	(3,026)	-	-
Due to changes in PD's/ LGD's/ EAD	17,586	(10,858)	(4,194)	2,534
Due to new financial assets originated	25,627	2,143	4,711	32,481
Write-offs	-	-	(1,880)	(1,880)
Closing balance as at 31 December 2022	109,951	20,118	146,522	276,591

	31 December 2021			
Wholesale Banking segment Loans	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Grand total AED'000
Opening balance as at 1 January 2021	47,582	17,543	155,066	220,191
Transfer from Stage 1 to Stage 2	(35,149)	35,149	-	-
Transfer from Stage 2 to Stage 3	-	(24,211)	24,211	-
Transfer from Stage 2 to Stage 1	6,422	(6,422)	-	-
Due to changes in PD's/ LGD's/ EAD	(12,866)	16,761	6,761	10,656
Due to new financial assets originated	64,583	-	-	64,583
Write-offs	-	-	(51,974)	(51,974)
Closing balance as at 31 December 2021	70,572	38,820	134,064	243,456

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

	31 December 2022			
Business Banking segment Loans	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Grand total AED'000
Opening balance as at 1 January 2022	246,888	139,258	479,800	865,946
Transfer from Stage 1 to Stage 2	(176,248)	176,248	-	-
Transfer from Stage 2 to Stage 3	-	(112,372)	112,372	-
Transfer from Stage 2 to Stage 1	13,757	(13,757)	-	-
Transfer from Stage 3 to Stage 2	-	8,051	(8,051)	-
Due to changes in PD's/ LGD's/ EAD	40,086	35,176	30,531	105,793
Due to new financial assets originated	123,838	28,407	75,931	228,176
Write-offs	-	-	(226,220)	(226,220)
Closing balance as at 31 December 2022	248,321	261,011	464,363	973,695

	31 December 2021			
Business Banking segment Loans	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Grand total AED'000
Opening balance as at 1 January 2021	269,053	300,768	372,800	942,621
Transfer from Stage 1 to Stage 2	(332,131)	332,131	-	-
Transfer from Stage 2 to Stage 3	-	(330,447)	330,447	-
Transfer from Stage 2 to Stage 1	141,558	(141,558)	-	-
Transfer from Stage 3 to Stage 2	-	18,335	(18,335)	-
Due to changes in PD's/ LGD's/ EAD	(205,576)	(39,971)	295,024	49,477
Due to new financial assets originated	373,984	-	-	373,984
Write-offs	-	-	(500,136)	(500,136)
Closing balance as at 31 December 2021	246,888	139,258	479,800	865,946

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

	31 December 2022			
Retail Banking segment Loans	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Grand total AED'000
ECL allowance as at 1 January 2021	365,394	122,505	295,907	783,806
Transfer from Stage 1 to Stage 2	(105,874)	105,874	-	-
Transfer from Stage 2 to Stage 3	-	(79,694)	79,694	-
Transfer from Stage 2 to Stage 1	34,340	(34,340)	-	-
Transfer from Stage 3 to Stage 2	-	14,271	(14,271)	-
Due to changes in PD's/ LGD's/ EAD	(82,138)	14,431	183,643	115,936
Due to new financial assets originated	133,599	51,462	32,049	217,110
Write-offs	-	-	(294,086)	(294,086)
ECL allowance as at 31 December 2021	345,321	194,509	282,936	822,766

	31 December 2021			
Retail Banking segment Loans	Stage 1 AED'000	Stage 2 AED'000	Stage 3 AED'000	Grand total AED'000
ECL allowance as at 1 January 2021	366,900	263,091	366,639	996,630
Transfer from Stage 1 to Stage 2	(272,319)	272,319	-	-
Transfer from Stage 2 to Stage 3	-	(334,204)	334,204	-
Transfer from Stage 2 to Stage 1	220,313	(220,313)	-	-
Transfer from Stage 3 to Stage 2	-	55,039	(55,039)	-
Due to changes in PD's/ LGD's/ EAD	(259,372)	86,573	524,875	352,076
Due to new financial assets originated	309,872	-	-	309,872
Write-offs	-	-	(874,772)	(874,772)
ECL allowance as at 31 December 2021	365,394	122,505	295,907	783,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

41. Financial risk management (continued)

Collateral held as security and other credit enhancements

The Group holds collateral or other credit enhancements to mitigate credit risk associated with financial assets. The main types of collateral and the types of assets these are associated with are listed in the table below. The collateral presented relates to instruments that are measured at FVOCI, amortized cost and at FVTPL.

	<i>Type of collateral held</i>
Derivative asset	Fixed Deposit/Cash Margin
Loans and advances to banks	Letter of Comfort/Export Bills
Mortgage lending	Mortgage over Property
Corporate lending	Fixed Deposit/Cash Margin; Mortgage over Properties/Vehicles; Bank Guarantee/Stand-by Letter of Credit; Pledge of Shares; Stocks and Receivables etc.
Investment securities	Underlying investments

In addition to the collateral included in the table above, the Group holds other types of collateral and credit enhancements, such as second charges and floating charges for which specific values are not generally available.

There was no change in the Group's collateral policy during the year. More details with regards to collateral held for certain classes of financial assets can be found below.

	2022	2021
	AED '000	AED '000
Credit Impaired Loans and Advances		
Stage 3 Loans and Advances	1,202,501	1,454,947
Less: Provisions held	(893,821)	(909,771)
Net Exposures	308,680	545,176
Market value of Collateral held		
Property	565,479	787,343
Vehicles & others	35,013	26,462
Securities	10,999	39,266
Total value of Collateral values	611,491	853,071

Off-setting of collateral

	2022	2021
	AED '000	AED '000
Loans outstanding that can be set-off against cash collateral	1,057,670	934,311

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Restructured loans and advances***

Restructuring activities include interest rate adjustments, extended payment arrangements and modification of payments. The majority of restructuring activity is undertaken to improve cash flow and is within the terms and conditions of the Group's product programme guideline. These policies are kept under continuous review. The Group has reviewed the entire portfolio and reported only restructured loans with financial difficulties under this note. The group has a full-fledged Collections and Recovery Unit that follow-up with overdue/delinquent customers for regularising the loan/advances. The table below presents loans restructured during the year 2022 and 2021.

Restructured loans during the year:

Product	2022		2021	
	No of accounts	Loan amount AED'000	No of accounts	Loan amount AED'000
Personal loans	287	71,742	1,105	241,240
Mortgage loans	5	4,905	14	19,949
Credit cards	1073	38,848	2,003	76,025
Auto loans	3	348	30	2,459
Other business banking loans	18	20,296	176	53,750
Wholesale banking loans	2	8,398	6	125,432
RAK business loans	152	98,387	350	260,994
Total	1,540	242,924	3,684	779,849

The table below presents restructured loan portfolio outstanding as at 31 December:

Product	2022		2021	
	No of accounts	Loan amount AED'000	No of accounts	Loan amount AED'000
Personal loans	2,228	677,777	2,368	747,925
Mortgage loans	68	119,903	75	145,771
Credit cards	5,091	117,775	6,136	169,591
Auto loans	138	4,604	286	9,424
Other business banking loans	222	260,611	330	325,649
Wholesale banking loans	11	126,371	16	202,717
RAK finance business loans	646	331,786	713	419,466
Total	8,404	1,638,827	9,924	2,020,543

41. Financial risk management (continued)

Movement of the provision for credit loss (continued)

Mortgage lending

The Group holds residential properties as collateral for the mortgage loans it grants to its customers. The Group monitors its exposure to retail mortgage lending using the LTV ratio, which is calculated as the ratio of the gross amount of the loan – or the amount committed for loan commitments – to the value of the collateral. The valuation of the collateral excludes any adjustments for obtaining and selling the collateral. The value of the collateral for residential mortgage loans is typically based on the collateral value at origination updated based on changes in house price indices. For credit-impaired loans the value of collateral is based on the most recent appraisals.

Personal lending

The Group's personal lending portfolio consists of secured loans, unsecured loans and credit cards.

Corporate lending

The Group requests collateral and guarantees for corporate lending. The most relevant indicator of corporate customers' creditworthiness is an analysis of their financial performance, cashflow generation, their liquidity, advantage, management effectiveness and growth ratios. The valuation of collateral held against corporate lending, after initial approval, is updated once every two years for a performing asset. The valuation of such collateral is monitored more closely if the loan is put on "watch-list".

Offsetting financial assets and financial liabilities:

Financial assets and liabilities are offset and the net amount is reported in the balance sheet where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

The Group has no offsetting financial assets and financial liabilities to report as at 31 December 2022 and 31 December 2021.

41. Financial risk management (continued)**Risk Management – Hedging:**

The following note explains the group's exposure to financial risks that are hedged and for which hedge accounting is applied:

Risk	Exposure Arising from	Measurement	Management
Currency risk	Loans and advances in foreign currency	Cash flow forecasting	Currency forwards
	Deposit from customer in foreign currency		Currency forwards
	Investment securities in foreign currency		Cross currency swaps
Interest rate risk	Investment in debt securities	Sensitivity analysis	Interest rate swaps
	Debts securities and other long term borrowing		
	Loans and advances		

The financial details of the hedged exposures are covered in Note 32.

Market risk

The Group takes on exposure to market risk, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity instruments, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, credit spreads, foreign exchange rates and equity prices.

The Asset and Liability Committee (ALCO) is chaired by the Chief Financial Officer and comprises of the Chief Executive Officer, Divisional heads of Treasury, Risk, Operations, Wholesale Banking, Business Banking and Retail Banking. It meets on a regular basis to monitor and manage market risk.

ALCO is responsible for formalising the Banks key financial indicators and ratios, sets the thresholds to manage and monitor the market risk and also analyses the sensitivity of the Banks interest rate and maturity mismatches. ALCO also guides the investment decisions and provides guidance in terms of interest rate and currency movements.

Market Risk and Treasury Mid Office functions with Risk Management are responsible for day to day monitoring of Market risk exposures within Board approved Policies and Market Risk Appetite.

The exposures to derivatives include forward exchange contracts, Option Contracts and Interest Rate Swaps which are entered to meet customer needs and covered back to back in the interbank market. Further the Group has executed some interest rate swaps and a Cross Currency Swap for economic hedging purposes. Also, the Group has executed some derivatives on proprietary books within Board approved Risk Limits for Trading.

Group's proprietary Investments are managed according to the group's approved Investment Policy.

41. Financial risk management (continued)***Price risk***

The Group is exposed to price risk as a result of its holdings in debt securities classified as fair value through OCI and fair value through profit and loss in investment securities. The fair values of investments quoted in active markets are based on current prices. Senior Management meets regularly to discuss the return on investment and concentration across the Group's investment portfolio and manages the risk through diversification in terms of Counterparty, Country Industry and Rating. Any trading positions in securities under the fair value through profit and loss are guided by the approved Limits for Trading.

The sensitivity analysis for price risk illustrates how changes in the fair value of quoted equity securities and funds held by the Group will fluctuate because of changes to market prices whether those changes are caused by factors specific to the individual issuer, or factors affecting all similar securities traded in the market.

The table below summarises the impact of increases/decreases of the indexes on the group's equity and profit for the period. The analysis is based on the assumption that the equity indexes had increased or decreased by 5% and 2% respectively with all other variables held constant, and that all of the group's equity and fund instruments moved in line with the indexes.

	Impact on Profit		Impact on OCI	
	2022	2021	2022	2021
	AED'000	AED'000	AED'000	AED'000
Increase / decrease by 5% (+/-)	3,304	6,579	21,875	18,877
Increase / decrease by 2% (+/-)	1,321	2,632	8,750	7,551

Post-tax profit for the period would increase/decrease as a result of gains/losses on equity securities or funds classified as at FVPL. Other components of equity would increase/decrease as a result of gains/losses on equity securities or funds classified as at FVOCI.

Interest rate risk

Interest rate risk in the banking book (IRRBB) is the risk of loss resulting from a general change in market rates due to different terms to maturity or re-fixing on the asset and liability sides whether on- or off-balance sheet. Changes in market rates, specifically interest rates, impacts bank profitability in the short-term by varying its net interest income (NII) and the level of other interest sensitive revenues and operating expenses. Also, from a long-term perspective it impacts the underlying value of the bank's assets or liabilities, as the discounted value of future cash flows (i.e. in or out) changes due to market movements.

The Group monitors interest rate risk in banking book through the use of a detailed Interest Repricing gap reports and Net Interest Income (NII) and Economic Value of Equity (EVE) based sensitivity analysis to analyze the impact of anticipated movements in interest rates on the bank's profitability. The Group has an overarching Risk Appetite limits for NII and EVE. The Group has a Board approved Enterprise Risk Management Policy that covers the IRRBB framework & risk appetite limits for Interest Rate Risk, the Group's risk appetite framework includes the escalation mechanisms in case limits are in breach & the reporting required at the management or board level risk committees. The annual ICAAP process also includes an exhaustive stress testing exercise to assess the impact of interest rate shocks on the banking book.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)

41. Financial risk management (continued)

Interest rate risk (continued)

IRRBB is actively steered by the Asset Liability Committee (ALCO) along with the Management Risk Committee and under the oversight of the Board Risk Committee.

Also the bank has a Hedging framework which includes the hedging strategies and the governance process for both fair value and cash flow interest rate risks hedging, also covers the derivatives products used for managing the interest rates risk at the bank level and assure it is within the approved risk appetite and hedging framework.

Financial assets that are not subject to any interest-rate risk mainly comprise investments in Subsidiaries, Equity investments, cash, balances with central banks excluding certificates of deposit / Monetary Bills (M-Bills).

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The table below sets out the Group's assets and liabilities at carrying amounts, categorized by the earlier of contractual repricing or maturity dates:

	Less than 3 months AED'000	3 months to 1 year AED'000	1 – 3 years AED'000	3 – 5 years AED'000	Over 5 years AED'000	Non - interest bearing AED'000	Total AED'000
At 31 December 2022							
Assets							
Cash and balances with the UAE Central Bank	-	-	-	-	-	4,713,892	4,713,892
Due from other banks, net	9,987,058	1,475,984	44,924	5,653	-	(57,298)	11,456,321
Loans and advances, net	21,195,206	6,954,755	7,380,335	1,359,927	1,478,486	(2,297,442)	36,071,267
Investments at fair value	531,189	159,392	537,797	1,208,383	1,255,251	550,230	4,242,242
Investments at amortised cost, net	1,676,066	983,211	2,077,515	1,592,322	949,816	(57,124)	7,221,806
Insurance contract assets and receivables, net	-	-	-	-	-	280,928	280,928
Customer Acceptances	100,545	45,428	-	-	-	-	145,973
Goodwill and other intangible assets, Right of use assets, Property and equipment and other assets	305,478	223,132	29,088	-	5,791	1,807,924	2,371,413
Total	33,795,542	9,841,902	10,069,659	4,166,285	3,689,344	4,941,110	66,503,842
Liabilities and shareholders' equity							
Due to other banks	5,549,059	642,775	-	-	-	-	6,191,834
Deposits from customers	38,430,248	5,625,743	781,738	33,575	6	0	44,871,310
Debt securities issued and other long term borrowings	1,814,892	367,300	1,817,551	-	-	-	3,999,743
Insurance contract liabilities and payables	-	-	-	-	-	464,491	464,491
Other liabilities	204,979	195,054	29,208	59,333	35,475	1,281,334	1,805,383
Customer acceptances	100,544	45,429	-	-	-	-	145,973
Shareholders' equity	-	-	-	-	-	9,025,108	9,025,108
Total	46,099,722	6,876,301	2,628,497	92,908	35,481	10,770,933	66,503,842
Interest rate sensitivity gap	(12,304,180)	2,965,601	7,441,162	4,073,377	3,653,863	(5,829,823)	-

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Interest rate risk (continued)

	Less than 3 months AED'000	3 months to 1 year AED'000	1 – 3 years AED'000	3 – 5 years AED'000	Over 5 years AED'000	Non - interest bearing AED'000	Total AED'000
<i>At 31 December 2021</i>							
Assets							
Cash and balances with the UAE Central Bank	-	-	-	-	-	3,894,068	3,894,068
Due from other banks, net	6,586,543	1,871,509	9,418	653	-	-39,269	8,428,854
Loans and advances, net	18,388,207	5,996,161	7,365,781	1,440,086	2,484,104	(2,111,092)	33,563,247
Investments at fair value	941,445	1,138,628	621,941	733,842	905,593	557,418	4,898,867
Investments at amortised cost, net	843,192	648,238	1,057,246	1,017,635	1,025,685	-24,940	4,567,056
Insurance contract assets and receivables, net	-	-	-	-	-	362,491	362,491
Customer Acceptances	59,274	8,294	-	-	-	-	67,568
Goodwill and other intangible assets, Right of use assets, Property and equipment and other assets	121,277	50,929	5,708	10,359	18,530	1,594,439	1,801,242
Total	26,939,938	9,713,759	9,060,094	3,202,575	4,433,912	4,233,115	57,583,393
Liabilities and shareholders' equity							
Due to other banks	1,679,237	1,494,986	-	-	-	-	3,174,223
Deposits from customers	34,104,809	4,661,134	159,891	941	-	-	38,926,775
Debt securities issued and other long term borrowings	1,810,049	1,271,815	2,192,462	-	-	-	5,274,326
Insurance contract liabilities and payables	-	-	-	-	-	477,847	477,847
Other liabilities	173,385	40,820	5,126	10,359	18,530	1,032,592	1,280,812
customer acceptances	59,274	8,294	-	-	-	-	67,568
Shareholders' equity	-	-	-	-	-	8,381,842	8,381,842
Total	37,826,754	7,477,049	2,357,479	11,300	18,530	9,892,281	57,583,393
Interest rate sensitivity gap	(10,886,816)	2,236,710	6,702,615	3,191,275	4,415,382	(5,659,166)	-

Interest rate risk is assessed by measuring the impact of reasonable possible change in interest rate movements. The Group assumes a fluctuation in interest rates of 25 basis points (bps) and estimates the following impact on the net profit for the year and net assets at that date:

	2022 AED'000	2021 AED'000
Fluctuation in interest rates by 25 bps	22,347	20,376

41. Financial risk management (continued)***Interest rate risk (continued)***

The interest rate sensitivities set out above are worst case scenarios and employ simplified calculations. They are based on the gap between AED 43,637 million (2021: AED 36,654million) of interest bearing assets with maturities within one year and AED 52,976 million (2021: AED 45,304 million) of interest bearing liabilities with maturities within one year. The sensitivity does not incorporate actions that could be taken by management to mitigate the effect of interest rate movements.

IBOR transition

Regulators and central banks in various jurisdictions have convened national working groups to identify replacement rates for the interbank offer rates ('IBORS') to facilitate an orderly transition to these rates. Traditional IBOR benchmark rates are being replaced by new refined alternative reference rates like USD LIBOR is being replaced by Secured Overnight Financing Rates (SOFR), GBP LIBOR is being replaced by Sterling Overnight Index average (SONIA), Euro LIBOR is being replaced by Euro Short Term Rate (ESTR), CHF LIBOR is being replaced by Swiss Average Overnight Rate (SARON) and JPY LIBOR is being replaced by Tokyo Overnight Average Rate (TONAR).

LIBOR rate publication has been ceased since 31st December 2021 for GBP LIBOR, Euro LIBOR, CHF LIBOR & JPY LIBOR. In case of USD LIBOR, 1 week & 2 months tenor rates has been ceased since 31st December 2021 and other USD LIBOR tenor rates will be ceased by 30 June 2023.

The Financial Conduct Authority ("FCA"), has however announced that it is consulting on its intention to compel the ICE Benchmark Administration ("IBA") to publish a non-representative synthetic USD LIBOR for 1 month, 3 months and 6 months tenors from July 1, 2023 to September 30, 2024 and a non-representative synthetic GBP LIBOR for 3 months tenor from July 1, 2023 to March 31, 2024 for a limited use to apply to certain legacy contracts. Such synthetic LIBOR would be a non-representative and usage has to be limited to tough legacy government or other contracts only where there is no way out for transition.

As previously announced, GBP synthetic LIBOR will be published for 1 month and 6 months tenors till March 31, 2023

LIBOR rates are forward looking and published for a borrowing period (e.g. 1 month, 3 months, 6 months etc) and adjusted for credit risk spread while alternate reference rates (ARR) are overnight rates based on actual transactions hence adjustments for term spread and credit spread are required so that it would be economically equivalent to its predecessor on transition

The group has initiated a IBOR transition programme with the objective of facilitating an orderly transition from IBORS for the group and its clients. This programme oversees the transition by each of the businesses and is led by the Managing Director, Wholesale Banking Group - Products. The programme is currently focused on evaluating the impact of the IBOR transition on legacy contracts as well as new issuance of contract which would refer to alternative reference rate and the proposed changes to processes, legal contracts, IT systems and communication with counterparties and customers. The group has begun to engage clients to determine their ability to transition in line with the readiness of the alternative rate product availability. Covid-19 have affected the ability of clients to transition early and has resulted in compressed timelines for IBOR transition. Therefore, development and use of appropriate migration tools, and industry initiatives such as the ISDA protocol has been

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necessary to enable a more ordered transition coupled with legislative approaches for the products which are structurally difficult to transition.

41. Financial risk management (continued)

Interest rate risk (continued)

IBOR transition (continued)

In combination with the greater number of legacy contracts requiring transition, this increases the overall level of execution risk on the transition process, thus potentially increasing the level of conduct and operational risks. Our plans are being adjusted to reflect both the greater effort required and associated risks. In addition to the heightened conduct and operational risks, the process of adopting new reference rates may expose the group to an increased level of financial risk, such as potential earnings volatility resulting from contract modifications and changes in hedge accounting relationships.

Furthermore, the transition to alternative reference rates could have a range of adverse impacts on our business, including legal proceedings or other actions regarding the interpretation and enforceability of provisions in IBOR-based contracts and regulatory investigations or reviews in respect of our preparation and readiness for the replacement of IBOR with alternative reference rates. We continue to engage with industry participants, the official sector and our clients to support an orderly transition and the mitigation of the risks resulting from the transition.

Mitigating actions:

- The IBOR transition programme is in place to facilitate an orderly transition to replacement rates for our business and our clients and is overseen by the Managing Director, Wholesale Banking Group - Products.
- Transition to alternative rate products is supported by extensive training, communication and client engagement to facilitate appropriate selection of products.
- IT and operational change is being implemented to enable a longer transition window.
- Business line risks have been assessed and are dynamically monitored and overseen, with specific mitigation linked to programme deliverables.
- We continue to actively engage with regulatory and industry bodies to mitigate risks relating to hedge accounting changes, multiple loan conventions, and contracts that are unable to transition.

The Bank does not have exposure to Euro LIBOR, CHF LIBOR, JPY LIBOR or GBP LIBOR hence there being no impact on transition process. The Bank has only USD LIBOR exposure (on 31 December 2022) of which significant exposure is due for maturity before transition date (i.e., 30 June 2023) Further, in case of impacted portfolio, majority of booking are syndication lending where Bank does not have lead role.

Following assets and liabilities require to transit to an alternative benchmark interest rate by 30 June 2023:

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	At 31 December 2022 AED'000
ASSETS	
Due from other banks, net	1,025,667
Loans and advances, net	5,606,651
Total assets	6,632,318
Debt securities issued and other long-term borrowings	1,283,954
Total liabilities	1,283,954
Notional amount of Derivatives	3,547,668

41. Financial risk management (continued)

Interest rate risk (continued)

IBOR transition (continued)

The following table contains details of only the hedging instruments used in the Group's hedging strategies which referenced USD LIBOR and have not yet transitioned to an alternate interest rate benchmark.

	Carrying amount			Balance sheet line item(s)	Notional amount directly impacted by IBOR reform
	Notional AED'000	Assets AED'000	Liabilities AED'000		AED'000
Fair value hedges					
Interest rate swap	121,209	1,172	-	Loans and advances, net	121,209
Interest rate swap	841,117	29,411	-	Investment securities measured at fair value	767,657
	962,326	30,583	-		888,866

Of the AED 962million nominal amount of interest rate swaps above, AED 73 million will mature before anticipated replacement of USD LIBOR in Q2 2023.

Rising interest rate and inflation with business risk review, analysis of the portfolios and impact assessment

The UAE economy has remained very buoyant in the year, particularly due to the rapid growth in the oil related GDP. The non-oil GDP has benefited from removal of travel & movements restrictions which has led to both a sharp increase in tourism into UAE as well as increase in spends by the UAE residents. On the back of this strong growth we are seeing both government & private sector investments & spending increase and hence asset & lending growth across all our business segments - Retail, Small Medium Enterprises (SMEs) and Corporate.

During COVID-19 pandemic, the UAE had managed the inflationary pressures which was felt across the globe in a very effective way so far. Whilst inflation is on the increase, in relative terms, it is better managed than many other parts of the World. The Bank do not expect the UAE to be entirely immune to the rising inflation and higher interest rates. The upward rates trajectory, ongoing global supply-chain challenges, conflict in the Eurozone and other economic factors have exerted an inflationary pressure on the most basic necessities.

We continue to carefully assess the affordability & feasibility of new lending in the backdrop of a potential global recession and expect to see a slowdown in non-essential spend by consumers as they incur more costs on travel, food etc.

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Lending rates have increased on Mortgages, Personal loans and Auto Loans following the rate hikes and this has in turn led to a higher loan instalments for new customers compared to before. Companies have highlighted a rise in input costs, as prices for items such as fuel, metals, chemicals and energy continued to remain elevated due to the existing global supply-chain challenges.

41. Financial risk management (continued)

Interest rate risk (continued)

Rising interest rate and inflation with business risk review, analysis of the portfolios and impact assessment (continued)

However, the Bank has not witnessed any major impact on large Corporates and SMEs as yet, as alternate sourcing in the local market supports them. Currently there are no clear signals of a recession in the UAE as continue to track industrial output, inflation data, ongoing geopolitical tensions, resultant supply pressures on energy, food and other essential goods, rising interest rates alongside other economic factors and remain cautious in terms of our outlook. The Bank constantly looks for ways to assist to its customers and be by them for their evolving needs. The Bank is closely monitoring the inflationary pressures that the customers may face and is well geared to support them. Whilst the global economic situation has been challenging, the fundamentals of the UAE economy remain strong.

Importantly, the Bank is confident in its sustained progress as a bank that is gaining momentum in all its focus segments and launching new initiatives to support the continued growth of the business. The Bank is capable of absorbing changes due to its strong liquidity and capital structure while benefiting from the current rising interest rate regime with priority will remain the financial wellbeing of the customers.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates and arises from financial instruments denominated in a foreign currency. Positions are closely monitored and strategies are used to ensure positions are maintained within established limits.

The Group's assets are typically funded in the same currency as that of the business transacted in order to eliminate foreign exchange exposure. However, the Group does run open positions within the approved Trading limits.

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(continued)****41. Financial risk management (continued)***Currency risk*

At 31 December, the Group has below mentioned currency exposures

	At 31 December 2022			At 31 December 2021		
	Net spot	Net forward	Net	Net spot	Net forward	Net
	Position	Position	Position	Position	Position	Position
	AED	AED	AED	AED	AED	AED
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
US Dollars - USD	8,799,591	(5,975,686)	2,823,905	11,445,251	(6,687,014)	4,758,237
Euro – EUR	(229,418)	207,401	(22,017)	(260,541)	261,897	1,356
Pound Sterling - GBP	(327,665)	327,524	(141)	(180,248)	178,478	(1,770)
Saudi Riyal - SAR	65,594	540,235	605,829	(2,095,826)	2,482,652	386,826
Japanese Yen – JPY	195	280	475	1,234	-	1,234
Nigerian Nira - NGN	4,587	-	4,587	340,582	(320,097)	20,485
Gold – XAU	310,129	(303,358)	6,771	79,987	(74,671)	5,316
Egyptian Pound - EGP	310	(6,422)	(6,112)	446,190	2,914	449,104
Qatar Riyal - QAR	10,957	63	11,020	6,070	248	6,318
Bahrain Dinar - BHD	658	114	772	10,054	434,807	444,861
Indian Rupee - INR	35,213	(152)	35,061	3,719	2,513	6,232
Philippine Peso - PHP	7,568	-	7,568	1,741	-	1,741
Swiss francs (CHF)	1,557	(480)	1,077	651	-	651
Australian dollar	(153,021)	153,467	446	596	-	596
Others	11,499	(92,740)	(81,241)	8,226	323	8,549
	8,537,754	(5,149,754)	3,388,000	9,807,686	(3,717,950)	6,089,736

The Group has no significant exposure to foreign currency risk as its functional currency is pegged to the USD, the currency in which the Group has the largest net open position at 31 December 2022 and 2021. All currency positions are within limits laid down by Board Risk Committee.

Impact of fluctuation in market rate on open currency position other than USD

	2022	2021
	AED'000	AED'000
Net open currency position non-USD	564,095	1,331,499
Impact of 1 % change in currency rate (+/-)	5,641	13,315

41. Financial risk management (continued)

Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for customer lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfil lending commitments. The risk that the Group will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, systemic shocks and natural disasters.

Liquidity risk management process

The Group manages its liquidity in accordance with Central Bank of the UAE requirements and the Group's internal guidelines mandated by ALCO and Management Risk Committee under the oversight of the Board Risk Committee. Based on the directives of the ALCO, the Treasury manages the liquidity of the Group.

The Group has in place a Board approved Liquidity Risk Management Framework. It covers Liquidity Risk related risk appetite of the Group, roles and responsibilities of different divisions in the Group in relation to liquidity risk taking, measurement, monitoring and mitigation of liquidity risk and the contingency funding plan.

On the funding side, the Group has a large proportion of its funds in the form of own funds which reduces the requirement for external funds. The Group relies on deposits from its relationship-based retail banking, business banking and wholesale banking customers as its primary source of funding and only on a short term basis relies on interbank borrowings to fund its assets. The Group's debt securities typically are issued with maturities of greater than two to three years. Deposits from customers generally have shorter maturities and a large portion of them are repayable on demand as is endemic to these markets. The short-term nature of these deposits increase the Group's liquidity risk and the bank manages this risk through maintaining competitive pricing and constant monitoring of market trends. Also, most of the deposit customers of the Group are relationship based and based on past trends, It is observed that these deposits are sticky in nature, thus reducing the liquidity risk to a large extent. The Groups depositor profile is diverse leading to a more stable deposit funding.

During the period SAR 800 million Islamic bilateral borrowing of year 2019 got matured and repaid in June 2022. Additionally SAR 500 million Islamic bilateral borrowing of year 2021 matured and was repaid in November 2022.

41. Financial risk management (continued)***Liquidity risk (continued)***

On the deployment side, the Group maintains a portfolio of highly liquid assets largely made up of balances with the UAE Central Bank, Monetary Bills (M-Bills) issued by the Central Bank, inter-bank facilities and investment securities including investments in local government bonds which can be repaid to meet short term liquidity mismatches and be offloaded to meet longer term mismatches. The Central Bank of the UAE has prescribed reserve requirements on deposits, 1% for time deposits and 7% on current, saving, call and similar accounts. As a contingency funding plan, the Bank evaluates and keeps ready debt financing plans which can be quickly executed if required.

The table below analyses assets and liabilities of the Group into relevant maturity groupings based on the remaining years from the reporting date to the contractual cash flow date. The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest-bearing liabilities as they mature, are important factors in assessing the liquidity of the Group and its exposure to changes in interest rates and exchange rates. Contractual undiscounted repayment obligations are not significantly different from those reported in the table below.

The Central Bank of the UAE. also imposes mandatory 1:1 Loans to Stable Resources Ratio (LSRR) whereby loans and advances (combined with inter-bank placements having a remaining term of greater than three months) should not exceed stable funds as defined by the Central Bank of the UAE. During the pandemic this requirement was temporarily eased to 110% along with easing the Eligible Liquid Assets Ratio (ELAR) from erstwhile 10% to 7% by the Central Bank of UAE. However such relief has now come to an end from June 2022 and at present, regulatory threshold for LSRR & ELAR are 100% & 10% respectively. ALCO monitors loans to stable resources ratios on a daily basis. The Bank on a daily basis also monitors the Eligible Liquid Asset Ratio (ELAR) and has set up internal Management Alert Triggers and Board Approved Risk Appetite Triggers to take suitable corrective actions once the internal thresholds have been reached.

The LSRR as at 31 December 2022, stood at 79.67% (2021: 82.8%) which is significantly lower than the maximum requirement of 100%. Similarly, the Eligible Liquid Assets Ratio of the Group stood at 12.8% (2021: 11.6%) as at 31 December 2022, also reflecting a healthy liquidity position.

The Group has a large proportion of its liabilities as demand deposits which do not have a fixed maturity. Although behaviourally these deposits are stable, these have been grouped under up to 3 months category in accordance with the UAE Central Bank guideline.

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The table below summarises the maturity profile of the Bank's financial assets and liabilities as at December 31, 2022 and 2021.

	Up to 3 months AED'000	3 – 12 Months AED'000	1 - 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Provision for Credit loss AED'000	Total AED'000
At 31 December 2022							
Assets							
Cash and balances with the UAE Central Bank	4,713,892	-	-	-	-	-	4,713,892
Due from other banks	5,425,008	4,147,002	1,935,956	5,653	-	(57,298)	11,456,321
Loans and advances	8,687,011	5,983,200	8,332,385	5,117,695	10,024,028	(2,073,052)	36,071,267
Investment securities at fair value	1,081,419	159,392	537,797	1,208,383	1,255,251	-	4,242,242
Investment securities at amortised cost	1,676,066	983,211	2,077,515	1,592,322	949,816	(57,124)	7,221,806
Insurance contract assets and receivables	273,100	36,876	-	-	-	(29,048)	280,928
Customer acceptances	100,545	45,428	-	-	-	-	145,973
Goodwill and intangible assets	-	-	-	-	370,497	-	370,497
Property and equipment, Right of use asset and other assets	1,030,583	17,941	39,519	81,384	831,489	-	2,000,916
Total	22,987,624	11,373,050	12,923,172	8,005,437	13,431,081	(2,216,522)	66,503,842

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

41. Financial risk management (continued)

Liquidity risk (continued)

	Up to 3 months AED'000	3 - 12 months AED'000	1 - 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Provision Credit loss AED'000	Total AED'000
At 31 December 2022							
Liabilities and shareholders' equity							
Due to other banks	3,138,314	1,293,627	595,860	1,164,033	-	-	6,191,834
Deposit from customers	38,430,248	5,625,743	781,738	33,575	6	-	44,871,310
Debts securities issue and other long term borrowing	-	2,182,192	1,817,551	-	-	-	3,999,743
Insurance contract liabilities and payables	419,790	44,701	-	-	-	-	464,491
Customer acceptances	100,545	45,428	-	-	-	-	145,973
Other liabilities and lease liabilities	1,328,737	10,255	41,073	85,415	339,903	-	1,805,383
Shareholders' equity	-	-	-	-	9,025,108	-	9,025,108
Total	43,417,634	9,201,946	3,236,222	1,283,023	9,365,017	-	66,503,842
Net cumulative liquidity gap	(20,430,010)	(18,258,906)	(8,571,956)	(1,849,542)	2,216,522	-	-
At 31 December 2021							
Total assets	18,349,803	10,721,606	10,825,674	6,939,225	12,737,077	(1,989,992)	57,583,393
Total liabilities and equity	37,168,139	7,545,989	4,317,403	40,552	8,511,310	-	57,583,393
Net cumulative liquidity gap	(18,818,336)	(15,642,719)	(9,134,448)	(2,235,775)	1,989,992	-	-

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

41. Financial risk management (continued)

Liquidity risk (continued)

The table below summarises the maturity profile of the Bank's financial liabilities as at December 31, 2022 and 2021 based on contractual undiscounted repayment obligations. As interest payments up to contractual maturity are included in the table, totals do not match with the consolidated statement of financial position. The contractual maturities of liabilities have been determined based on the remaining period at the consolidated statement of financial position date to the contractual maturity date and do not take into account the effective expected maturities. The Bank expects that many customers will not request repayment on the earliest date the Bank could be contractually required to pay and the table is not representative of the expected cash flows indicated by behavioural history of the Bank's deposits.

	Up to 3 months AED'000	3 to 12 months AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Total AED'000
31-December-2022						
Due to other banks	4,932,643	1,418,996	-	-	-	6,351,639
Deposit from customers	38,515,596	5,823,052	831,660	40,085	6	45,210,399
Debt security in issue/other long	16,667	2,377,438	1,855,629	-	-	4,249,734
Grand Total	43,464,906	9,619,486	2,687,289	40,085	6	55,811,772
	Up to 3 months AED'000 (Restated)	3 to 12 months AED'000	1 to 3 years AED'000	3 to 5 years AED'000	Over 5 years AED'000	Total AED'000 (Restated)
31-December-2021						
Due to other banks	1,513,180	1,550,830	126,759	-	-	3,190,769
Deposit from customers	34,117,310	4,706,423	163,789	1,018	-	38,988,540
Debt security in issue/other long	4,345	1,461,165	4,156,314	-	-	5,621,824

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Grand Total

35,634,835

7,718,418

4,446,862

1,018

-

47,801,133

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)****Liquidity risk (continued)***Off-balance sheet items*

	No later than 1 year AED'000	1-5 years AED'000	Over 5 years AED'000	Total AED'000
At 31 December 2022				
Credit commitments	4,372,716	119,373	-	4,492,089
Letter of credits and guarantees	1,101,223	138,374	-	1,239,597
Total	5,473,939	257,747	-	5,731,686
At 31 December 2021				
Credit commitments	3,775,447	182,181	-	3,957,628
Letter of credits and guarantees	902,841	321,941	-	1,224,782
Total	4,678,288	504,122	-	5,182,410

Financial instruments*Categories of financial instruments*

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9:

	At amortized cost AED'000	Fair value through comprehensive income AED'000	Hedging derivatives AED'000	Fair value Through profit or loss AED'000	Total AED'000
At 31 December 2022					
Assets					
Investment securities	7,221,806	4,134,746	-	107,496	11,464,048
Derivative financial instruments	-	-	72,862	490,627	563,489
Cash and balances with the UAE central Bank	4,713,892	-	-	-	4,713,892
Due from other banks	11,456,321	-	-	-	11,456,321
Loans and advances	36,071,267	-	-	-	36,071,267
Insurance contract assets and receivables	212,958	-	-	-	212,958
Customer acceptances	145,973	-	-	-	145,973
Total financial assets	59,822,217	4,134,746	72,862	598,123	64,627,948
Liabilities					
Due to other banks	6,191,834	-	-	-	6,191,834
Deposits from customers	44,871,310	-	-	-	44,871,310
Debt securities issued and other long term borrowings	3,999,743	-	-	-	3,999,743
Insurance contract liabilities and payables	464,491	-	-	-	464,491
Derivative financial instruments	-	-	29,378	494,671	524,049
Customer acceptances	145,973	-	-	-	145,973
Total financial liabilities	55,673,351	-	29,378	494,671	56,197,400

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Financial instruments (continued)******Categories of financial instruments (continued)***

The following tables analyse the Group's financial assets and financial liabilities in accordance with categories of financial instruments under IFRS 9:

	At amortized cost AED'000 (Restated)	Fair value through comprehensive income AED'000	Hedging derivatives AED'000	Fair value through profit or loss AED'000	Total AED'000 (Restated)
<i>At 31 December 2021</i>					
<i>Assets</i>					
Investment securities	4,567,056	4,661,991	-	236,876	9,465,923
Derivative financial instruments	-	-	22,886	183,915	206,801
Cash and balances with the UAE central Bank	3,894,068	-	-	-	3,894,068
Due from other banks	8,428,854	-	-	-	8,428,854
Loans and advances	33,563,247	-	-	-	33,563,247
Insurance contract assets and receivables	283,634	-	-	-	283,634
Customer acceptances	67,568	-	-	-	67,568
Total financial assets	50,804,427	4,661,991	22,886	420,791	55,910,095
<i>Liabilities</i>					
Due to other banks	3,174,223	-	-	-	3,174,223
Deposits from customers	38,926,775	-	-	-	38,926,775
Debt securities issued and other long term borrowings	5,274,326	-	-	-	5,274,326
Insurance contract liabilities and payables	477,847	-	-	-	477,847
Derivative financial instruments	-	-	72,344	175,875	248,219
Customer acceptances	67,568	-	-	-	67,568
Total financial liabilities	47,920,739	-	72,344	175,875	48,168,958

Fair value hierarchy

The fair value measurements are categorised into different levels in the fair value hierarchy based on the inputs to valuation techniques used. The different levels are defined as follows:

Quoted market prices - Level 1

Financial instruments are classified as Level 1 if their values are observable in an active market. Such instruments are valued by reference to unadjusted quoted prices for identical assets or liabilities in active markets where the quoted price is readily available, and the price represents actual and regularly occurring market transactions.

Valuation techniques using observable inputs - Level 2

Financial instruments classified as Level 2 have been valued using models whose inputs are observable in an active market. Valuation based on observable inputs include financial instruments such as forwards foreign exchange contracts which are valued using market standard pricing techniques.

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Financial instruments (continued)******Fair value hierarchy (continued)*****Valuation techniques using significant unobservable inputs - Level 3**

Financial instruments are classified as Level 3 if their valuation incorporates significant inputs that are not based on observable market data (unobservable inputs). A valuation input is considered observable if it can be directly observed from a transaction in an active market.

Unobservable input levels are generally determined based on observable inputs of a similar nature, historical observations or other analytical techniques.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The table below analyses recurring fair value measurements for assets and liabilities.

Financial assets measured	Level	Valuation techniques and key inputs
FVTPL Quoted debt investments	Level 1	Quoted mid prices in an active market
Quoted equity investments	Level 1	Quoted mid prices in an active market
Unquoted debt investments	Level 2	Based on the recent similar transaction in market
Unquoted debt investments	Level 3	Based on discounted cash flow model
Mutual and other funds	Level 2	Quoted prices in secondary market.

The assets measured at fair value as per the hierarchy are disclosed in the table below:

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
31 December 2022				
<i>Asset at fair value</i>				
<i>(Through other comprehensive income)</i>				
Investment securities - debt	3,655,522	36,490	-	3,692,012
Investment securities - equity	437,494	-	5,240	442,734
Foreign exchange contracts	-	43,103	-	43,103
Derivative financial instruments	-	520,386	-	520,386
<i>(Through profit and loss)</i>				
Investment market fund	66,071	-	41,425	107,496
Investment- debt securities <i>(Held at amortised cost)</i>				
Investment securities - debt	6,933,915	-	116,560	7,050,475
	11,093,002	599,979	163,225	11,856,206
<i>Liabilities at fair value</i>				
Foreign exchange contracts	-	45,079	-	45,079
Derivative financial instruments	-	478,970	-	478,970
	-	524,049	-	524,049

There are no transfers between levels during the period.

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Financial instruments (continued)******Fair value hierarchy (continued)***

	Quoted market prices Level 1 AED'000	Observable inputs Level 2 AED'000	Significant unobservable inputs Level 3 AED'000	Total AED'000
<i>31 December 2021</i>				
<i>Asset at fair value</i>				
<i>(Through other comprehensive income)</i>				
Investment securities - debt	3,829,217	408,538	42,237	4,279,992
Investment securities - equity	377,540	-	4,459	381,999
Foreign exchange contracts	-	38,968	-	38,968
Derivative financial instruments	-	167,833	-	167,833
<i>(Through profit and loss)</i>				
Investment market fund	131,577	-	43,842	175,419
Investment- debt securities	61,457	-	-	61,457
<i>(Held at amortised cost)</i>				
Investment securities - debt	4,498,220	-	166,759	4,664,979
	8,898,011	615,339	257,297	9,770,647
<i>Liabilities at fair value</i>				
Foreign exchange contracts	-	28,608	-	28,608
Derivative financial instruments	-	219,611	-	219,611
	-	248,219	-	248,219

There were no transfers between levels during the period.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

Reconciliation of Level 3 fair value measurement of financial assets measured at FVOCI

Investment securities - equity	2022 AED'000	2021 AED'000
At 1 January	4,459	2,612
Purchases	781	1,847
Disposals/matured	-	-
Change in fair value	-	-
At 31 December	5,240	4,459

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)***Financial instruments (continued)**Fair value hierarchy (continued)*

Reconciliation of Level 3 fair value measurement of financial assets measured at FVPL

Investment market fund	2022 AED'000	2021 AED'000
At 1 January	43,842	42,481
Purchases	-	-
Disposals/matured	-	-
Change in fair value	(2,417)	1,361
At 31 December	41,425	43,842

Reconciliation of Level 3 fair value measurement of financial assets at amortised cost

Investment securities - debt	2022 AED'000	2021 AED'000
At 1 January	166,759	257,064
Purchases	-	-
Disposals/matured	(52,382)	(108,437)
Change in fair value	2,183	18,132
At 31 December	116,560	166,759

Reconciliation of Level 3 fair value measurement of financial assets fair value through other comprehensive income

Investment securities - debt	2022 AED'000	2021 AED'000
At 1 January	42,237	159,632
Purchases	-	42,323
Disposals/matured	(42,237)	(149,827)
Change in fair value	-	(9,891)
At 31 December	-	42,237

Classification: RAKBANK-Public**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****41. Financial risk management (continued)*****Financial instruments (continued)******Fair values of financial assets and liabilities***

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction. Consequently, differences can arise between the carrying values and fair value estimates of financial assets and liabilities. At 31 December 2022, the carrying value of the Group's financial assets and liabilities approximate their fair values, except for the below mentioned financial assets and liabilities:

	Fair value		Carrying value	
	31 December 2022 AED'000	31 December 2021 AED'000 (Restated)	31 December 2022 AED'000	31 December 2021 AED'000 (Restated)
Assets				
Loans and advances	36,317,835	33,975,003	36,071,267	33,563,247
Investment securities measured at fair value	4,242,242	4,898,867	4,242,242	4,898,867
Investment securities measured at amortised cost	7,050,475	4,664,979	7,221,806	4,567,056
Cash and balances with the UAE central Bank	4,713,892	3,894,068	4,713,892	3,894,068
Due from other banks	11,282,514	8,378,915	11,456,321	8,428,854
Total financial assets	63,606,958	55,811,832	63,705,528	55,352,092
Liabilities				
Due to other banks	6,286,678	3,184,645	6,191,834	3,174,223
Deposits from customers	44,887,239	38,933,837	44,871,310	38,926,775
Debt securities issued and other long term borrowings	4,050,230	5,354,510	3,999,743	5,274,326
Total financial liabilities	55,224,147	47,472,992	55,062,887	47,375,324

41. Financial risk management (continued)

Capital Management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of statement of financial position, are:

- to comply with the capital requirements set by the Central Bank of United Arab Emirates;
- to safeguard the Bank's ability to continue as a going concern and increase the returns for the shareholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored on a regular basis by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee and the Central Bank of United Arab Emirates. The required information is filed with the regulators on a regular basis as required under Basel III standards.

The Bank's capital management is driven by short and long-term strategies and organisational requirements with due consideration to the regulatory, economic and commercial environment in which the Bank operates.

The Bank seeks to optimise returns on capital, and its objective has always been to maintain a strong capital base to support business development and to meet regulatory capital requirements at all times.

Capital structure and capital adequacy as per Basel III requirement as at 31 December 2022

The Bank is required to report capital resources and risk-weighted assets under the Basel III from February 2017. Capital structure and capital adequacy as per Basel III requirement as at 31 December 2022 and 31 December 2021 (after applying prudential filter) is given below:

Classification: RAKBANK-Public

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Capital Management (continued)

	31 December 2022 AED'000	31 December 2021 AED'000
<i>Tier 1 capital</i>		
Ordinary share capital	1,676,245	1,676,245
Legal and other reserves	3,990,045	4,019,781
Retained earnings	2,225,576	1,830,499
Current year profit	1,206,099	754,802
Dividend	(569,923)	(377,155)
Tier 1 capital base	8,528,042	7,904,172
Total regulatory adjustments	(362,295)	(15,020)
Tier 1 Capital base after Regulatory Adjustments	8,165,747	7,889,152
Tier 2 capital base	601,194	545,734
Total capital base	8,766,941	8,434,886
<i>Risk weighted assets</i>		
Credit risk	48,095,557	43,658,721
Market risk	1,649,697	2,186,151
Operational risk	3,628,998	3,678,449
Total risk weighted assets	53,374,252	49,523,321
Capital adequacy ratio on Tier 1 capital	15.30%	15.93%
Capital adequacy ratio on Tier 2 capital	1.13%	1.10%
Total Capital adequacy ratio	16.43%	17.03%

As per the Central Bank of UAE Regulation for Basel III, the Minimum Capital requirement including Capital Conservation Buffer is 13.0% for year 2022. Additionally, Central Bank of UAE regulation dated 22 April 2020 provides for a "Prudential Filter" that permits Banks and Finance Companies to add back increases in IFRS 9 provisions to the regulatory capital over a transition period of 5 years, on a proportionate basis.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)**

41. Financial risk management (continued)

Capital Management (continued)

Capital Management – Insurance subsidiary

The Insurance subsidiary's objectives when managing capital, are:

- to comply with the insurance capital requirements required by U.A.E. Federal Law No. 6 of 2007, on establishment of Insurance Authority and Organization of its operations;
- to protect its policyholders' interest;
- to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing insurance contracts commensurately with the level of risk.

The minimum regulatory capital for the insurance subsidiary is AED 100 million (2021: 100 million) against which the total paid up capital held for the insurance subsidiary is AED 121.275 million (2021: 121.275 million).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****42. Insurance risk**

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is random and therefore unpredictable. The Group writes the general, medical and life insurance contracts. General insurance contracts of the Group include Liability, Property, Motor, Fire, Marine and Engineering insurance contracts. Medical insurance contracts include both individual and group medical insurance contracts. Life insurance contracts include group, retail and credit life insurance contracts.

The principal risk the Group faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Group is to ensure that sufficient reserves are available to cover these liabilities.

Risk management framework

The above risk exposure is mitigated by diversification across a large portfolio of insurance contracts. The variability of risks is also improved by careful selection and implementation of underwriting strategy guidelines, as well as the use of reinsurance arrangements. The Group mainly issues short-term insurance contracts.

Two key elements of the Group's insurance risk management framework are its underwriting strategy and reinsurance strategy, as discussed below.

Underwriting strategy

The Group's underwriting strategy is to build balanced portfolios based on a large number of similar risks. This reduces the variability of the portfolio's outcome.

The underwriting strategy is set out by the Group that establishes the classes of business to be written, the territories in which business is to be written and the industry sectors in which the Group is prepared to underwrite. This strategy is cascaded by the business units to individual underwriters through detailed underwriting authorities that set out the limits that any one underwriter can write by line size, class of business, territory and industry in order to ensure appropriate risk selection within the portfolio.

Reinsurance strategy

The Group reinsures a portion of the insurance risks it underwrites in order to control its exposure to losses and protect capital resources.

Ceded reinsurance contains credit risk, as discussed in the financial risk management note. The Group has a Reinsurance department that is responsible for setting the minimum security criteria for acceptable reinsurance and monitoring the purchase of reinsurance by the business units against those criteria. The department monitors developments in the reinsurance programme and its ongoing adequacy.

The Group enters into a combination of proportionate and non-proportionate reinsurance treaties to reduce the net exposure to the Group. In addition, underwriters are allowed to buy facultative reinsurance in certain specified circumstances.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****42. Insurance risk (continued)*****Frequency and severity of claims***

The Group manages insurance risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria, as well as the use of reinsurance arrangements.

The Group has the right not to renew individual policies, re-price the risk, impose deductibles and reject the payment of a fraudulent claim for both short and long-term insurance contracts. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation).

The reinsurance arrangements include excess of loss and catastrophe coverage. The effect of such reinsurance arrangements is that the Group should not suffer net insurance losses above a set limit. In addition to the overall Group's reinsurance program, business units are permitted to purchase additional facultative reinsurance protection, if needed. Whenever required, the Group engages professional competent surveyors for claims management. The surveyors using their market knowledge and expertise may investigate and recommend adjustments to claims. The claims are reviewed individually at least once a year and adjusted to reflect the latest information on the underlying facts.

Sources of uncertainty in the estimation of future claim payments

Claims on insurance contracts are payable on a claims-occurrence basis. The Group is liable for all insured events that occurred during the term of the contract, even if the loss is discovered after the end of the contract term. The estimation of IBNR is generally subject to a greater degree of uncertainty than the estimation of the cost of settling claims already notified to the Group, where information about the claim event is available. IBNR claims may not be apparent to the insured until many years after the event that gave rise to the claims. For some insurance contracts, the IBNR proportion of the total liability is high and will typically display greater variations between initial estimates and final outcomes because of the greater degree of difficulty of estimating these liabilities. In estimating the liability for the cost of reported claims not yet paid, the Group considers information available from loss adjusters and information on the cost of settling claims with similar characteristics in previous periods. The Group involved an independent external actuary as well. Large claims are assessed on a case-by-case basis or projected separately in order to allow for the possible distortive effect of their development and incidence on the rest of the portfolio.

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures.

The liability for these contracts comprises a provision for IBNR and a provision for reported claims not yet paid at the end of the reporting period.

The amount of insurance claims is in some cases sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022
(continued)****42. Insurance risk (continued)*****Sources of uncertainty in the estimation of future claim payments (continued)***

Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

In calculating the estimated cost of unpaid claims (both reported and not), the Group's estimation techniques are a combination of loss-ratio-based estimates and an estimate based upon actual claims experience using predetermined formulae where greater weight is given to actual claims experience as time passes. The initial loss-ratio estimate is an important assumption in the estimation technique and is based on previous years' experience, adjusted for factors such as premium rate changes, anticipated market experience and historical claims inflation.

The Group believes that the claim liabilities under insurance contracts outstanding at the year-end are adequate. However, the insurance claim liabilities are sensitive to the various assumptions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

43. Critical accounting estimates and judgments in applying accounting policies

The Group's consolidated financial statements and its financial results are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the consolidated financial statements. The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with applicable standards. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Accounting policies and management judgement for certain items are especially critical for the Group's results and financial situation due to their materiality.

(a) Critical judgments in applying the group's accounting policies - IFRS 9

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- *Business model assessment*

Classification and measurement of financial assets depends on the results of the "solely payments of principal and interest" and the business model test. The Group determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets are evaluated and measured, the risks that affect the performance of the assets and how they are managed and how the managers of the assets are compensated. The Group monitors financial assets measured at amortised cost or fair value through other comprehensive income that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held. Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate, whether there has been a change in business model resulting in a prospective change to the classification of those assets.

- *Significant increase of credit risk*

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. IFRS 9 does not define what constitutes a significant increase in credit risk. In assessing whether the credit risk of an asset has significantly increased, the Group takes into account qualitative and quantitative reasonable and supportable forward-looking information.

The broad level factors that are considered to determine whether a financial asset has experienced SICR are: days past due of more than 30 days on its contractual payments and various other qualitative factors that include changes in current Credit ratings vis-à-vis initial credit ratings as per the defined Graded SICR thresholds (mainly used for non-retail, due from banks and Investment portfolio), Risk Bureau classification of the customer, Whether an exposure has been restructured since initial recognition. The criteria may be rebutted on a case by case basis, depending upon actual situation/credit Quality of financial asset/customer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(a) Critical judgments in applying the group's accounting policies - IFRS 9 (continued)

Definition of default and credit-impaired assets:

Group defines a non-retail, retail and investment instrument as in default, which is largely aligned with the definition of credit-impaired, when it meets one or more of the following criteria:

Quantitative criteria

The borrower is 90 (or more) days past due on its contractual payments.

Qualitative criteria:

The bank classifies the loans as Non-performing account (NPA) when:

- Such loans, which may lead to incurring of some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security.
- Loans whose full recovery seems doubtful on the basis of information available, leading, generally, to a loss of part of these loans (when the financial position of the customer and securities are not sufficient).

Loans where bank has exhausted all courses of action available but failed to recover anything, or where there is a possibility that nothing shall be recovered

▪ *Establishing groups of assets with similar credit risk characteristics*

When ECLs are measured on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics according to product. The Group monitors the appropriateness of the credit risk characteristics on an ongoing basis to assess whether they continue to be similar. This is required in order to ensure that should credit risk characteristics change there is appropriate re-segmentation of the assets. This may result in new portfolios being created or assets moving to an existing portfolio that better reflects the similar credit risk characteristics of that group of assets. Re-segmentation of portfolios and movement between portfolios is more common when there is a significant increase in credit risk (or when that significant increase reverses) and so assets move from 12-month to lifetime ECLs, or vice versa, but it can also occur within portfolios that continue to be measured on the same basis of 12-month or lifetime ECLs but the amount of ECL changes because the credit risk of the portfolios differ.

▪ *Models and assumptions used*

The Group uses various models and assumptions in measuring fair value of financial assets as well as in estimating ECL. Judgement is applied in identifying the most appropriate model for each type of asset, as well as for determining the assumptions used in these models, including assumptions that relate to key drivers of credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(b) Classification of and measurement of financial assets and liabilities

The Group classifies financial instruments, or its component parts, at initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual agreement and the definitions of the instruments. The substance of the financial instrument, rather than the legal form, governs its reclassification in the statement of financial position.

The Group determines the classification at initial recognition and, when allowed and appropriate, re-evaluates this designation at every statement of financial position date.

In measuring financial assets and liabilities, some of the Group's assets and liabilities are measured at a fair value for financial reporting purposes. In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages independent professionally qualified valuers to perform the valuation. The Bank works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

(c) Fair value measurement

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives, discount rates, prepayment rates and default rate assumptions for asset backed securities. The Management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(d) Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate. When prices are not available, Bank uses Counterparty valuations (third party valuations) or fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. The main factors which management considers when applying a model are:

- (i) The likelihood and expected timing of future cash flows on the instrument. These cash flows are usually governed by the terms of the instrument, although management judgment may be required in situations where the ability of the counterparty to service the instrument in accordance with the contractual terms is in doubt; and
- (ii) An appropriate discount rate of the instrument. Management determines this rate, based on its assessment of the appropriate spread of the rate for the instrument over the risk-free rate. When valuing instruments by reference to comparable instruments, management takes into account the maturity, structure and rating of the instrument with which the position held is being compared

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(e) Provision for outstanding claims, whether reported or not

Considerable judgment by the management is required in the estimation of amounts due to the contract holders arising from claims made under insurance contracts. Such estimates are necessarily based on significant assumptions about several factors involving varying, and possible significant, degrees of judgment and uncertainty and actual results may differ from management's estimates resulting in future changes in estimated liabilities.

In particular, estimates have to be made both for the expected ultimate cost of claims reported at the date of statement of financial position and for the expected ultimate cost of claims incurred but not reported ("IBNR") at the date of statement of financial position. Claims requiring court or arbitration decisions are estimated individually. Independent loss adjusters normally estimate property claims. Management reviews its provisions for claims incurred and IBNR claims regularly.

(f) Useful lives of property and equipment

The management determines the useful lives of property and equipment and the related depreciation charge. The depreciation charge for the year will change significantly if the actual life is different from the estimated useful life of the asset. The review carried out by management in the current year did not indicate any necessity for changes in the useful lives of property and equipment.

(g) Impairment of goodwill

The calculation of value-in-use is sensitive to the following assumptions:

(i) Growth rate

Growth rates are based on the management's assessment of the market share having regard to the forecasted growth and demand for the products offered. Terminal growth rate of 3.5% per annum has been applied in the calculation.

(ii) Profit margins

Profit margins are based on the management's assessment of the performance potential of the cash generating unit for the next five years.

(iii) Discount rates

Management has used the discount rate of 8.35% per annum throughout the assessment period, reflecting the estimated weighted average cost of capital of the Group and specific market risk profile.

The recoverable amount of this CGU would equal its carrying amount if the key assumptions were to change as follows:

	From	To
Growth rate	3.50%	2.24%
Discount rate	8.35%	9.37%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(h) Measurement of ECL under IFRS 9

The following are key estimations that the management has used in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in financial statements:

- *Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and determining the forward looking information relevant to each scenario:* When measuring ECL the Group uses reasonable and supportable forward looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.
- *Probability of default:* PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.
- *Loss Given Default:* LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.
- EAD is an estimate of the current exposure for funded facilities. For non-funded facilities the EAD is taken as the *product* of the applicable credit conversion factors and contract values. Exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities

(i) Critical judgments in applying the group's accounting policies for "IFRS 16 – Leases"

The following are the critical judgments, apart from those involving estimations, that the management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements:

Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

The amount payable under residual value guarantees

The Group initially estimates and recognises amounts expected to be payable under residual value guarantees as part of the lease liability. The amounts are reviewed, and adjusted if appropriate, at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

43. Critical accounting estimates and judgments in applying accounting policies (continued)

(j) Process used to decide on insurance contract assumptions

The risks associated with insurance contracts are complex and subject to a number of variables that complicate quantitative sensitivity analysis. The Group uses assumptions based on a mixture of internal and market data to measure its claims liabilities. Internal data is derived mostly from the Group's quarterly claims reports and screening of the actual insurance contracts carried out at the end of the reporting period to derive data for the contracts held. The Group has reviewed the individual contracts and the actual exposure years of claims. This information is used to develop scenarios related to the latency of claims that are used for the projections of the ultimate number of claims.

The Group uses several statistical methods to incorporate the various assumptions made in order to estimate the ultimate cost of claims. The two methods more commonly used are the chain-ladder and the Bornhuetter-Ferguson methods.

Chain-ladder methods may be applied to premiums, paid claims or incurred claims (for example, paid claims plus case estimates). The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year. Chain-ladder techniques are most appropriate for those accident years and classes of business that have reached a relatively stable development pattern. Chain-ladder techniques are less suitable in cases in which the insurer does not have a developed claims history for a particular class of business.

The Bornhuetter-Ferguson method uses a combination of a benchmark or market-based estimate and an estimate based on claims experience. The former is based on a measure of exposure such as premiums; the latter is based on the paid or incurred claims to date. The two estimates are combined using a formula that gives more weight to the experience-based estimate as time passes. This technique has been used in situations in which developed claims experience was not available for the projection (recent accident years or new classes of business).

The choice of selected results for each accident year of each class of business depends on an assessment of the technique that has been most appropriate to observed historical developments. In certain instances, this has meant that a weighted average of different techniques has been selected for individual accident years or groups of accident years within the same class of business. The Group has an internal actuary and independent external actuaries are also involved in the valuation of technical reserves of the Group and has used historical data for the past 9 years.

Substantially all of the Group's underwriting activities are carried out in the United Arab Emirates. In common with other insurance companies, in order to minimise financial exposure arising from large insurance claims, the Group, in the normal course of business, enters into arrangement with other parties for reinsurance purposes.

To minimise its exposure to significant losses from reinsurer insolvencies, the Group evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities or economic characteristics of the reinsurers. Reinsurance ceded contracts do not relieve the Group from its obligations to policyholders. The Group remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet the obligations assumed under the reinsurance agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

44. Restatement of comparative figures

Restatement 1

During the period, the Bank performed an exercise to determine if the presentation of the financial statements is in accordance with IAS 1 “Presentation of financial statements”. As a result, comparative figures have been reclassified in accordance with IAS 1 ‘Presentation of financial statements’ in order to conform with the presentation for the current year. Intangible assets (2021: AED 232 million) which had been previously presented within property and equipment. As at 31 December 2022, the intangible assets have been presented as a separate line item in the consolidated statement of financial position as ‘Goodwill and intangibles assets’. As at 1 January 2021, intangibles assets amounted to AED 278 million.

The reclassification had no impact on the consolidated statement of comprehensive income or the consolidated statement of cash flows.

Restatement 2

During the year, Management of the group also considered the application of the offsetting requirements of IAS 32 Financial Instruments: Presentation (“IAS 32”) to Home in One (“HIO”). The HIO product is a mortgage offset lending facility which combines or links deposit account balances to the mortgage facility in order to reduce the mortgage balance on which the interest is charged.

As at 31 December 2021 and 1 January 2021, ‘Loans and advances, net’ amounted to AED 32.3 billion and AED 30.0 billion and ‘Deposits from customers’ amounted to AED 37.7 billion and AED 36.9 billion respectively, which were set-off with HIO Deposits amounting to AED 1.27 billion and AED 1.05 billion respectively. Management of the Group identified that the HIO product does not meet the set-off criteria under IAS 32 and as such corrected the statement of financial position and presented ‘Loans and advances, net’ and ‘Deposits from customers’ by grossing up with the HIO Deposits.

The impact of the restatements has set out below:

	As previously Reported AED’000	Restatement Increase / (Decrease) AED’000	As restated AED’000
<u>Statement of financial position as at 31 December 2021</u>			
Loans and advances, net	32,283,560	1,279,687	33,563,247
Deposits from customers	37,647,088	1,279,687	38,926,775
Property and equipment	694,267	(232,277)	461,990
Goodwill and intangible assets	166,386	232,277	398,663
<u>Statement of cash flows for the year ended 31 December 2021</u>			
Decrease / (increase) in loans and advances, net	(3,309,618)	(1,279,687)	(4,589,305)
Increase in deposits from customers	702,764	1,279,687	1,982,451
Total	(2,606,854)	-	(2,606,854)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022 (continued)

44. Restatement of comparative figures (continued)

The earliest affected period of 1 January 2021 is not separately presented in the consolidated statement of financial position as the only change to the consolidated statement of financial position as at 1 January 2021 was the restatement of balances as presented below:

	As previously Reported AED'000	Restatement Increase / (Decrease) AED'000	As restated AED'000
<u>Statement of financial position as at 1 January 2021</u>			
Loans and advances, net	30,041,470	1,053,664	31,095,134
Deposits from customers	36,944,324	1,053,664	37,997,988
Property and equipment	795,930	(278,240)	517,690
Goodwill and intangible assets	166,386	278,240	444,626
<u>Statement of cash flows for the year ended 1 January 2021</u>			
Decrease / (increase) in loans and advances, net	2,885,490	(1,053,664)	1,831,826
Increase in deposits from customers	117,964	1,053,664	1,171,628
Total	3,003,454	-	3,003,454

The above reclassification did not have any impact on the consolidated statement of profit or loss, and consolidated statement of comprehensive income and consolidated statement for changes in equity for the year ended 31 December 2021.

45. Social contributions

The social contributions made (including donations and charity) during the year to various beneficiaries amounted to AED 0.89 million (2021: AED 0.81 million).

46. UAE Corporate Income Tax

On 9 December 2022, the UAE Ministry of Finance ("MoF") published Federal Decree-Law No. 47 of 2022 on Taxation of Corporations and Businesses (the "Corporate Tax Law"). This means businesses will be subject to UAE Corporate Tax ("Corporate Tax") from the beginning of their first financial year that starts on or after 1 June 2023. The UAE's Corporate Tax regime will levy a standard rate of 9% for taxable profits above a specified threshold and a 0% rate below that amount to support small businesses and start-ups. Expectations are that the threshold will be AED 375,000 but the amount is yet to be confirmed by a Cabinet Decision. The impact of implementing Corporate Tax results in the application of IAS 12 "Income Taxes" for entities reporting under IFRS once the law becomes enacted or substantively enacted. On 31 December 2022 the law was not enacted or substantively enacted within the meaning of IAS 12 because certain critical Cabinet Decisions necessary for the law to become operable remained outstanding. The Group is in the process of assessing the impact of the introduction of Corporate Tax and transfer pricing based on its structure.

47. Subsequent Events

The Board of Directors have proposed a cash dividend of 34 fils per share at their meeting held on 13 February 2023.

48. Approval of the consolidated financial statements

The consolidated financial statements were approved on 13 February 2023.