

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 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 decrease in Non-Interest Income AED 99.6 million and 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 RAK Insurance, 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 29.6 million and technology costs increased by 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 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.

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Financial performance (continued)

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.

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Key Achievements (continued)

- 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 Award
- 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

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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 2023