MASHREQBANK PSC

(incorporated with limited liability in the United Arab Emirates)

U.S.$300,000,000 Perpetual Additional Tier 1 Capital Securities

The U.S.$300,000,000 Perpetual Additional Tier 1 Capital Securities (the "**Capital Securities**") shall be issued by Mashreqbank psc (the "**Issuer**") on 7 July 2022 (the "**Issue Date**"). Interest Payment Amounts (as defined in the Conditions) shall be payable subject to and in accordance with terms and conditions set out in the "*Terms and Conditions of the Capital Securities"* (the "**Conditions**") on the Prevailing Principal Amount (as defined in the Conditions) of the Capital Securities from (and including) the Issue Date to (but excluding) 7 July 2027 (the "**First Call Date**") at a rate of 8.500 per cent. per annum. If the Capital Securities are not redeemed in accordance with the Conditions on the First Call Date, Interest Payment Amounts shall continue to be payable from (and including) the First Call Date subject to and in accordance with the Conditions at a fixed rate, to be reset on the First Call Date and every five years thereafter, equal to the Relevant Five-Year Reset Rate (as defined in the Conditions) plus a margin of 5.448 per cent. per annum. Interest Payment Amounts will (subject to the occurrence of a Non-Payment Event (as defined in, and as more particularly provided in, Condition 6.1 (*Interest Cancellation – Non-Payment Event*))) be payable semi-annually in arrear on 7 January and 7 July in each year, commencing on 7 January 2023 (each, an "**Interest Payment Date**"). Payments on the Capital Securities will be made free and clear of, without withholding or deduction for, or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature, imposed, levied, collected, withheld or assessed by or within the Tax Jurisdiction (as defined in the Conditions) (the "**Taxes**") to the extent described under Condition 12 (*Taxation*). All payments by the Issuer in respect of the Capital Securities shall be conditional upon satisfaction of the Solvency Conditions (as defined in the Conditions) and no bankruptcy order in respect of the Issuer having been issued by a court in the United Arab Emirates, as more particularly described in Condition 4 (*Status and Subordination*) (see, in particular, "*Risk Factors – Risks which are material for the purpose of assessing the risks associated with the terms of the Capital Securities – The Capital Securities are subordinated, conditional and unsecured obligations of the Issuer*").

If a Non-Viability Event (as defined in the Conditions) occurs, a Write-down (as defined in the Conditions) shall occur on the relevant Non-Viability Event Write-down Date (as defined in the Conditions), as more particularly described in Condition 10 (*Write-Down at the Point of Non-Viability*). In such circumstances, the Capital Securities shall automatically be deemed to be irrevocably, unconditionally and permanently written-down by the relevant Write-down Amount (as defined in the Conditions) and, in the case of the Write-down Amount corresponding to the full Prevailing Principal Amount of the Capital Securities then outstanding, the Capital Securities shall be cancelled (see "*Risk Factors – Risks which are material for the purpose of assessing the risks associated with the terms of the Capital Securities – The right to receive repayment of the principal amount of the Capital Securities and the right for any further interest will be permanently written-down upon the occurrence of a Non-Viability Event*").

The Issuer may elect, in its sole discretion, and in certain circumstances shall be required, not to pay interest falling due on the Capital Securities. Any Interest Payment Amounts not paid as aforesaid will not accumulate and the holder of a Capital Security shall not have any claim in respect thereof.

The Capital Securities are undated and have no final maturity date. Unless the Capital Securities have previously been redeemed or purchased and cancelled as provided in the Conditions, the Capital Securities may, at the option of the Issuer, subject to the prior approval of the Regulator (as defined in the Conditions), be redeemed (in whole but not in part) at the Early Redemption Amount (as defined in the Conditions) on the First Call Date or on any Interest Payment Date following the First Call Date. In addition, the Capital Securities may, upon the occurrence of a Tax Event or Capital Event (each as defined in the Conditions), be redeemed (in whole but not in part) at the Tax Redemption Amount or the Capital Event Redemption Amount (each as defined in the Conditions), respectively, subject to the prior approval of the Regulator and subject to the Conditions.

The payment obligations of the Issuer under the Capital Securities: (i) constitute direct, unsecured, conditional (as described in Condition 4.2(b) (*Status and Subordination – Subordination of the Capital Securities*) and Condition 4.3 (*Status and Subordination – Solvency Conditions*)) and subordinated obligations of the Issuer that rank *pari passu* and without preference or priority amongst themselves; (ii) rank subordinate and junior to all Senior Obligations (as defined in the Conditions) (but not further or otherwise); (iii) rank *pari passu* with all *Pari Passu* Obligations (as defined in the Conditions); and (iv) rank in priority only to all Junior Obligations (as defined in the Conditions). **Notwithstanding any other provisions in the Conditions, to the extent that any of the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of the Issuer has been issued by a court in the United Arab Emirates, all claims of the holders of the Capital Securities under the Capital Securities will be extinguished and the Capital Securities will be cancelled without any further payment to be made by the Issuer under the Capital Securities.**

Upon the occurrence of an Enforcement Event (as defined in the Conditions), any holder of the Capital Securities may give written notice to the Issuer at the specified office of the Fiscal Agent (as defined in the Conditions), effective upon the date of receipt thereof by the Fiscal Agent, that such Capital Security is due and payable, whereupon the same shall, subject to Condition 10 (*Write-Down at the Point of Non-Viability*) and Condition 11.4 (*Enforcement Events – Restrictions*) become forthwith due and payable at its Early Redemption Amount (as defined in the Conditions), without presentation, demand, protest or other notice of any kind.

An investment in the Capital Securities involves certain risks. For a discussion of these risks, see "*Risk Factors*".

The Capital Securities may only be offered, sold or transferred in registered form in minimum principal amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof. Delivery of the Capital Securities in book-entry form will be made on the Issue Date. The Capital Securities will be represented by interests in a global certificate in registered form (the "**Global Certificate**") deposited on or about the Issue Date with, and registered in the name of a nominee for, a common depositary (the "**Common Depositary**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Individual Certificates (as defined in the Conditions) evidencing holdings of interests in the Capital Securities will be issued in exchange for interests in the Global Certificate only in certain limited circumstances described herein.

This Prospectus has been approved by the *Commission de Surveillance du Secteur Financier* (the "**CSSF**"), in its capacity as the Luxembourg competent authority under Regulation (EU) 2017/1129 (as amended, the "**Prospectus Regulation**") as a prospectus for the purpose of giving information with regard to the issue of the Capital Securities. The CSSF has only approved this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the Prospectus Regulation. Such an approval should not be considered as an endorsement of the Issuer nor as an endorsement of the quality of the Capital Securities that are the subject of this

Prospectus and investors should make their own assessment as to the suitability of investing in the Capital Securities. The CSSF gives no undertaking as to the economic or financial soundness of the issue of the Capital Securities or the quality or solvency of the Issuer. Application has been made to the Luxembourg Stock Exchange for the Capital Securities to be admitted to trading on the Luxembourg Stock Exchange's regulated market (the "**Luxembourg Regulated Market**") and to be listed on the official list (the "**Luxembourg Official List**").

If you do not understand the contents of this Prospectus or are unsure whether the Capital Securities to which this Prospectus relates are suitable for your individual investment objectives and circumstances, you should consult an authorised financial adviser.

References in this Prospectus to Capital Securities being "**listed**" (and all related references) shall mean that such Capital Securities have been: (a) admitted to listing on the Luxembourg Official List; and (b) admitted to trading on the Luxembourg Regulated Market (which is a regulated market for the purposes of Directive 2014/65/EU (as amended, "**EU MiFID II**")).

This Prospectus will be valid until 5 July 2023. The obligation to supplement this Prospectus in the event of significant new factors, material mistakes or material inaccuracies will not apply when this Prospectus is no longer valid. For the purposes of this Prospectus, "**valid**" means valid for admissions to trading on a regulated market by or with the consent of the Issuer and the obligation to supplement this Prospectus is only required within its period of validity between the time when this Prospectus is approved and the closing of the offer period for the Capital Securities or the time when trading on a regulated market begins, whichever occurs later.

Amounts payable under the Capital Securities, following the First Call Date, will be calculated by reference to rates for U.S. Treasury securities which are published by the U.S. Federal Reserve System. As of the date of this Prospectus, the U.S. Department of Treasury does not appear on the register of administrators and benchmarks established and maintained by the European Securities and Markets Authority ("**ESMA**") pursuant to Article 36 of Regulation (EU) 2016/1011 (the "**Benchmarks Regulation**"). As far as the Issuer is aware, the U.S. Department of Treasury does not fall within the scope of the Benchmarks Regulation by virtue of article 2 of the Benchmarks Regulation.

The Issuer has been assigned long-term credit ratings of A by Fitch Ratings Limited ("**Fitch**"), Baa1 by Moody's Investors Service Cyprus Ltd. ("**Moody's**") and A- by S&P Global Ratings Europe Limited ("**S&P**"). The Issuer has been assigned short-term credit ratings of F1, P-2 and A-2 by Fitch, Moody's and S&P, respectively. As at the date of this Prospectus, the Capital Securities are not rated. Each of Moody's and S&P is established in the EEA, is registered under Regulation (EU) No 1060/2009 on credit rating agencies (the "**EU CRA Regulation**") and appears on the latest update of the list of registered credit rating agencies (as of the date of this Prospectus) on the ESMA website http://www.esma.europa.eu. Moody's and S&P are not established in the United Kingdom ("**UK**") or registered under Regulation (EU) No 1060/2009 on credit rating agencies as it forms part of domestic law of the UK by virtue of the European Union (Withdrawal) Act 2018 (the "**EUWA**") (the "**UK CRA Regulation**"). The ratings that Moody's and S&P have assigned to the Issuer are endorsed by Moody's Investors Service Ltd. and S&P Global Ratings UK Limited, respectively, each of which is established in the UK and registered under the UK CRA Regulation. Fitch is established in the UK, is registered under the UK CRA Regulation and appears on the latest update of the list of registered credit rating agencies (as of the date of this Prospectus) on the UK Financial Conduct Authority's Financial Services Register. Fitch is not established in the EEA or registered under the EU CRA Regulation. The rating that Fitch has assigned to the Issuer is endorsed by Fitch Ratings Ireland Limited which is established in the EEA and registered under the EU CRA Regulation.

A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

The Capital Securities have not been, nor will be, registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("**Regulation S**")) except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Capital Securities may be offered or sold solely to persons who are not U.S. persons outside the United States in reliance on Regulation S. Each purchaser of the Capital Securities is hereby notified that the offer and sale of Capital Securities to it is being made in reliance on the exemption from the registration requirements of the Securities Act provided by Regulation S.

Sole Structuring Agent

BofA Securities

Joint Lead Managers

BofA Securities | **Citigroup**

Emirates NBD Capital | **Mashreqbank psc**

J.P. Morgan | **Société Générale Corporate & Investment Banking**

Standard Chartered Bank

The date of this Prospectus is 5 July 2022.

IMPORTANT NOTICE

This Prospectus comprises a prospectus for the purposes of Article 6(3) of the Prospectus Regulation.

The Issuer accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Issuer (having taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

Certain information contained in "*Risk Factors*", "*Description of the Issuer – Competition*" and "*The United Arab Emirates Banking System and Prudential Regulation*" (as indicated therein) has been extracted from independent, third party sources. The Issuer confirms that all third party information contained in this Prospectus has been accurately reproduced and that, as far as it is aware and is able to ascertain from information published by the relevant third party sources, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information contained in this Prospectus is stated where such information appears in this Prospectus.

The accuracy or completeness of the information contained in this Prospectus has not been independently verified by the Joint Lead Managers or any of their respective directors, officers, affiliates, advisers or agents. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Managers or any of their respective directors, officers, affiliates, advisers or agents: (i) as to the accuracy or completeness of the information contained in this Prospectus or any other information provided by the Issuer in connection with the Capital Securities or their distribution; or (ii) for any acts or omissions of the Issuer or any other person in connection with this Prospectus or the issue and offering of the Capital Securities. To the fullest extent permitted by law, the Joint Lead Managers do not accept any liability in relation to the information contained in this Prospectus or any other information provided by the Issuer in connection with the Capital Securities or their distribution.

No person is or has been authorised by the Issuer or the Joint Lead Managers to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the issuance of the Capital Securities and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer or any of the Joint Lead Managers. The Joint Lead Managers accordingly disclaim all and any liability whether arising in contract, tort or otherwise which it might otherwise have in respect of any such information.

Neither this Prospectus nor any other information supplied in connection with the issuance of the Capital Securities: (a) is intended to provide the basis of any credit or other evaluation; or (b) should be considered as a recommendation by the Issuer or any of the Joint Lead Managers that any recipient of this Prospectus or any other information supplied in connection with the issuance of the Capital Securities should purchase any Capital Securities. Each investor contemplating purchasing any Capital Securities should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Issuer. Neither this Prospectus nor any other information supplied in connection with the issuance of the Capital Securities constitutes an offer or invitation by or on behalf of the Issuer or any of the Joint Lead Managers to any person to subscribe for or to purchase any Capital Securities.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Capital Securities shall in any circumstances imply that the information contained herein concerning the Issuer is correct at any time subsequent to the date hereof or that any other information supplied in connection with the issuance of the Capital Securities is correct as of any time subsequent to the date indicated in the document containing the same. The Joint Lead Managers expressly do not undertake to review the financial condition or affairs of the Issuer during the life of the issuance or to advise any investor in the Capital Securities of any information coming to their attention.

Investors should review, *inter alia*, the information contained in this Prospectus when deciding whether or not to purchase any Capital Securities.

The Capital Securities have not been, nor will be, registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Capital Securities may be offered or sold solely to persons who are not U.S. persons outside the United States in reliance on Regulation S.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Capital Securities in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Capital Securities may be restricted by law in certain jurisdictions. The

Issuer and the Joint Lead Managers do not represent that this Prospectus may be lawfully distributed, or that any Capital Securities may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Issuer or the Joint Lead Managers which is intended to permit a public offering of any Capital Securities or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Capital Securities may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Capital Securities may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of any Capital Securities. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of any Capital Securities in the United States, the UK, the European Economic Area (the "**EEA**"), the Kingdom of Bahrain, the State of Qatar (including the Qatar International Financial Centre), the Kingdom of Saudi Arabia, the Dubai International Financial Centre, the UAE (excluding the Dubai International Financial Centre), Hong Kong, Japan, Singapore and Switzerland (see "*Subscription and Sale*").

The Capital Securities may not be a suitable investment for all investors. Each potential investor in the Capital Securities must determine the suitability of that investment in light of its own circumstances, and is advised to consult its own tax advisers, legal advisers and business advisers as to tax, legal, business and related matters (as applicable) concerning the purchase of any Capital Securities.

In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

- has sufficient knowledge and experience to make a meaningful evaluation of the Capital Securities, the merits and risks of investing in the Capital Securities and the information contained in this Prospectus or any applicable supplement;
- has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Capital Securities and the impact the Capital Securities will have on its overall investment portfolio;
- has sufficient financial resources and liquidity to bear all of the risks of an investment in the Capital Securities, including where the currency for payments of principal or interest is different from the potential investor's currency;
- understands thoroughly the terms of the Capital Securities and is familiar with the behaviour of any relevant indices and financial markets; and
- is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The Capital Securities are complex financial instruments and high risk, and may not be a suitable or appropriate investment for all investors (see "*EU MiFID II Product Governance/Professional Investors and ECPs only Target Market*", "*UK MiFIR Product Governance/Professional Investors and ECPs only Target Market*", "*EU PRIIPs Regulation/Prohibition of Sales to EEA Retail Investors*" and "*Prohibition of Sales to UK Retail Investors*"). In some jurisdictions, regulatory authorities have adopted or published laws, regulations and/or guidance with respect to the offer or sale of securities similar to the Capital Securities. There are risks inherent in the holding of the Capital Securities, including risks relating to their subordination and the circumstances in which holders of the Capital Securities may suffer a loss as a result of the holding of the Capital Securities. For a discussion on certain considerations to be taken into account in respect of the holding of Capital Securities, see "*Risk Factors*". Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in the Capital Securities unless it has the expertise (either alone or with a financial adviser) to evaluate how the Capital Securities will perform under changing conditions, the resulting effects on the value of the Capital Securities and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (1) the Capital Securities are legal investments for it; (2) the Capital Securities can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any Capital Securities. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Capital Securities under any applicable risk-based capital or similar rules.

FORWARD-LOOKING STATEMENTS

This Prospectus includes forward-looking statements. All statements other than statements of historical facts included in this Prospectus including, without limitation, any statements regarding the financial position of the Issuer, or the business strategy, management plans and objectives for future operations of the Issuer, may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology, such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although the Issuer believes that the expectations reflected in their forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Issuer's actual results, performance or achievements, or industry results, to be materially different from any expressed or implied by forward-looking statements. Forward-looking statements may be based on numerous assumptions regarding the Issuer's present, and future, business strategies and the environment in which the Issuer expects to operate in the future. Important factors that could cause the Issuer's actual results, performance or achievements to differ materially from any in the forward-looking statements are discussed in this Prospectus (see "*Risk Factors*"). Forward-looking statements speak only as at the date of this Prospectus and, subject as required by applicable law or regulation, the Issuer expressly disclaims any obligation or undertaking to publicly update or revise any forward-looking statements in this Prospectus to reflect any change in the expectations of the Issuer or any change in events, conditions or circumstances on which any forward-looking statements are based. Given the uncertainties of forward-looking statements, the Issuer cannot assure potential investors that any projected results or events will be achieved and the Issuer cautions potential investors not to place undue reliance on these statements.

EU MiFID II PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Capital Securities has led to the conclusion that: (i) the target market for the Capital Securities is eligible counterparties and professional clients only, each as defined in EU MiFID II; and (ii) all channels for distribution of the Capital Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Capital Securities (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Capital Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

UK MiFIR PRODUCT GOVERNANCE/PROFESSIONAL INVESTORS AND ECPs ONLY TARGET MARKET

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Capital Securities has led to the conclusion that: (i) the target market for the Capital Securities is eligible counterparties, as defined in the UK Financial Conduct Authority ("**FCA**") Handbook Conduct of Business Sourcebook, and professional clients, as defined in the Article 2(1)(13A) of Regulation (EU) No. 600/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK MiFIR**"); and (ii) all channels for distribution of the Capital Securities to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Capital Securities (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook is responsible for undertaking its own target market assessment in respect of the Capital Securities (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

EU PRIIPs REGULATION/PROHIBITION OF SALES TO EEA RETAIL INVESTORS

The Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently no key information document required by Regulation (EU) No. 1286/2014 (as amended, the "**EU PRIIPs Regulation**") for offering or selling the Capital Securities or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Capital Securities or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS

The Capital Securities are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No. 2017/565 as it forms part of domestic law by virtue of the EUWA; or (ii) a customer within the meaning of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of UK MiFIR. Consequently, no key information document required by the EU PRIIPs Regulation as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Capital Securities or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Capital Securities or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

SINGAPORE SECURITIES AND FUTURES ACT PRODUCT CLASSIFICATION

Solely for the purposes of its obligations pursuant to Section 309B(1)(a) and Section 309B(1)(c) of the Securities and Futures Act (Chapter 289) of Singapore (as amended or modified from time to time, the "**SFA**"), the Issuer has determined, and hereby notifies all "relevant persons" (as defined in Section 309(A) of the SFA), that the Capital Securities are "prescribed capital markets products" (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

STABILISATION

In connection with the issue of the Capital Securities, Standard Chartered Bank (the "**Stabilisation Manager**") (or persons acting on behalf of the Stabilisation Manager) may over-allot Capital Securities or effect transactions with a view to supporting the market price of the Capital Securities at a level higher than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Capital Securities is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Capital Securities and 60 days after the date of the allotment of the Capital Securities. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or persons acting on behalf of any Stabilisation Manager) in accordance with all applicable laws and rules.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

In relation to investors in the Kingdom of Bahrain, Capital Securities issued in connection with this Prospectus and related offering documents may only be offered in registered form to existing accountholders and accredited investors as defined by the Central Bank of Bahrain (the "**CBB**") in the Kingdom of Bahrain where such investors make a minimum investment of at least U.S.$100,000 or any equivalent amount in another currency or such other amount as the CBB may determine.

This Prospectus does not constitute an offer of securities in the Kingdom of Bahrain in terms of Article (81) of the Central Bank and Financial Institutions Law 2006 (decree Law No. 64 of 2006). This Prospectus and related offering documents have not been and will not be registered as a prospectus with the CBB. Accordingly, no Capital Securities may be offered, sold or made the subject of an invitation for subscription or purchase, nor will this Prospectus or any other related document or material be used in connection with any offer, sale or invitation to subscribe or purchase any Capital Securities, whether directly or indirectly, to persons in the Kingdom of Bahrain, other than to accredited investors for an offer outside the Kingdom of Bahrain.

The CBB has not reviewed, approved or registered this Prospectus or related offering documents and it has not in any way considered the merits of the Capital Securities to be offered for investment, whether in or outside the Kingdom of Bahrain. Therefore, the CBB assumes no responsibility for the accuracy and completeness of the statements and information contained in this Prospectus and expressly disclaims any liability whatsoever for any loss howsoever arising from reliance upon the whole or any part of the contents of this Prospectus. No offer of the Capital Securities will be made to the public in the Kingdom of Bahrain and this Prospectus must be read by the addressee only and must not be issued, passed to, or made available to the public generally.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

The Capital Securities will not be offered or sold at any time, directly or indirectly, in the State of Qatar (including the Qatar Financial Centre) in a manner that would constitute a public offering. This Prospectus has not been and will not be reviewed or approved by, or registered with, the Qatar Financial Markets Authority, the Qatar Central Bank, the Qatar Stock Exchange or the Qatar Financial Centre Regulatory Authority in accordance with their regulations or any other regulations in the State of Qatar. The Capital Securities are not and will not be traded on the Qatar Stock Exchange. The Capital Securities and interests therein will not be offered to investors domiciled or resident in the State of Qatar and do not constitute debt financing in the State of Qatar under the Commercial Companies Law No. (11) of 2015 or otherwise under the laws of the State of Qatar.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**KSA CMA**").

The KSA CMA does not make any representation as to the accuracy or completeness of this Prospectus, and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Prospectus. Prospective purchasers of the Capital Securities should conduct their own due diligence on the accuracy of the information relating to the Capital Securities. If a prospective purchaser does not understand the contents of this Prospectus, he or she should consult an authorised financial adviser.

PRESENTATION OF FINANCIAL INFORMATION

Certain figures and percentages included in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

All references in this document to "**U.S. dollars**", "**U.S.$**" and "**$**" refer to United States dollars, to "**dirham**" and "**AED**" refer to UAE dirham and to "**euro**" and "**€**" refer to the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty on the Functioning of the European Union, as amended. The exchange rate between the AED and the United States dollar has been fixed since 22 November 1980 at U.S.$1.00 = AED 3.6725. Such translation should not be construed as representing that United Arab Emirates dirham amounts have been or could have been converted into United States dollars at this or any other rate of exchange. All references to "**UAE**" are to the United Arab Emirates.

ENFORCEMENT OF FOREIGN JUDGMENTS

The Issuer is a public shareholding company incorporated with limited liability in accordance with the laws of the UAE and the majority of its directors reside in the UAE. All or a substantial portion of the assets of the Issuer and its directors are located in the UAE. As a result, it may not be possible for investors to: (a) effect service of process upon the Issuer or any such directors outside the UAE; (b) enforce against any of them, in courts of jurisdiction other than the UAE, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions; or (c) enforce against any of them, in UAE courts, judgments obtained in jurisdictions other than the UAE, including judgments on the Deed of Covenant in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The Deed of Covenant, the Agency Agreement and the Capital Securities are governed by, and construed in accordance with, English law and disputes in respect of the Deed of Covenant, the Agency Agreement and the Capital Securities may be settled by arbitration under the rules of the London Court of International Arbitration in London, England unless any holder of Capital Securities (in the case of the Capital Securities or the Deed of Covenant) or Agent (in the case of the Agency Agreement) elects to have the dispute, claim, difference or controversy resolved by a court, in which case the English courts will have exclusive jurisdiction to settle such dispute (or such other court of competent jurisdiction as such party may elect). See "*Terms and Conditions of the Capital Securities — Governing Law and Dispute Resolution*". However, there is a risk that the courts of the UAE may only recognise a choice of law other than the law of, and applicable in, the UAE if they are satisfied that there exists an appropriate nexus between the contract expressed to be governed by such law and the foreign law system chosen. Further, the courts of the UAE will not honour any provision of any foreign law system they do recognise as validly chosen which is contrary to Islamic *Shari'a* jurisprudence, public order or morals or to any mandatory law of, or applicable in, the UAE. See further "*Risk Factors — Risk Factors relating to the legal and regulatory environment — UAE law and courts and the enforcement of foreign judgments in the Emirate of Dubai*".

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RISK FACTORS

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the Capital Securities. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, factors which are material for the purpose of assessing the market risks associated with the Capital Securities are also described below.

If any of the risks described below actually materialise, the Issuer's business, results of operations, financial condition or prospects could be materially and adversely affected. If that were to occur, the trading price of the Capital Securities could decline and investors could lose all or part of their investment.

The Issuer believes that the factors described below represent all the material risks inherent in investing in the Capital Securities, but the inability of the Issuer to pay interest, principal or other amounts on or in connection with any Capital Securities may occur for other reasons which may not be considered significant risks by the Issuer based on information currently available to it or which it may not currently be able to anticipate. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

*Words and expressions defined in "*Terms and Conditions of the Capital Securities*" shall have the same meanings in this section.*

The factors included below have been classified into the following categories: (i) risks related to the Issuer's business activities and industry; (ii) risks relating to the United Arab Emirates; (iii) risks relating to the legal and regulatory environment (iv) risks which are material for the purpose of assessing the risks associated with the terms of the Capital Securities; and (v) risks related to the market generally.

Risks related to the Issuer's business activities and industry

Impact of recent macroeconomic and financial market conditions

COVID-19

The Issuer, in common with other financial institutions, is susceptible to changes in the macroeconomic environment and the performance of financial markets generally. As at the date of this Prospectus, the performance of global debt, equity and commodity markets has been volatile, reflecting the ongoing volatility in the macro-economic climate which has had, and which continues to have, a material adverse effect on the world's economies, including the economies of the UAE and other Gulf Cooperation Council ("**GCC**"), states.

Since 2020, the macro-economic environment (both globally and within the UAE) has also been materially affected by the novel coronavirus which causes the disease known as "COVID-19". On 11 March 2020, the World Health Organization officially declared COVID-19 a global pandemic. The resulting restrictions on travel and public transport, requirements for people to remain at home and practice social distancing, and prolonged closures of workplaces have severely disrupted the global economy. The UAE took a number of temporary precautionary and preventative measures to contain the outbreak, including suspending passenger and transit flights, restricting movement within the UAE, closing schools and universities and imposing social distancing. Many of these measures were subsequently removed, although, if there is a further outbreak (for example, in connection with the "Omicron" or any other variant), such measures may need to be reimposed from time to time. The COVID-19 pandemic is ongoing as at the date of this Prospectus and the duration, impact and severity of the pandemic cannot be predicted as future variants may be identified with more severe impacts than those of currently known variants. Accordingly, the ultimate impact on global and local economies, (including on the price of oil) is unclear. The economic impact of COVID-19 has already included significant volatility in financial markets and it may lead to lower economic growth in the GCC and globally.

In response to the impact of COVID-19 on their domestic economies, various governments around the world, including the UAE (see further "The United Arab Emirates Banking System and Prudential Regulation – COVID-19"), announced fiscal stimulus packages and numerous central banks cut interest rates. Specifically, on 3 March 2020, the U.S. Federal Reserve cut its target range for the federal funds rate by 0.50 per cent. to between 1.00 and 1.25 per cent. and, on 15 March 2020, the range was cut further to between 0 to 0.25 per cent. On 16 March 2020, the Central Bank of the United Arab Emirates ("**UAE Central Bank**") cut the interest rate applicable to one-week certificates of deposit by 0.75 per cent. to 0.25 per cent. and it also reduced the rates applicable to the interim margin lending facility and the collateralised murabaha facility by 0.50 per cent. On 4 May 2022, the UAE Central Bank announced that it would increase its base rate by 50 basis points to 2.25 per cent. effective 5 May 2022 in response to inflationary pressures. Further announcements from central banks across the world could be forthcoming and it is unclear what impact these measures will ultimately have on their respective economies. On 15 June 2022, the UAE Central Bank announced that it decided to raise its base rate by 75 basis points effective from 16 June 2022. This decision was taken following the United States Federal Reserve Board's announcement on 15 June 2022 to increase the interest on reserve balances by 75 basis points. The UAE Central Bank also announced that it decided to maintain the rate applicable to borrowing short-term liquidity from the UAE Central Bank through all standing credit facilities at 50 basis points above the base rate.

Furthermore, the outbreak of the COVID-19 virus resulted in Organization of the Petroleum Exporting Countries ("**OPEC**") Reference Basket price volatility. In early March 2020, OPEC officials proposed a plan to the members of OPEC and other non-OPEC member countries, including Russia, to cut global production by 1.5 per cent. No agreement was reached, ending a three-year partnership between OPEC and major non-OPEC oil exporters. This also resulted in the OPEC countries and other non-OPEC countries, including Russia (collectively, "**OPEC plus**"), failing to extend the agreement of cutting 2.1 million barrels per day that was set to expire at the end of March 2020. In March 2020, Saudi Arabia announced that it would raise oil output and discount its oil in April 2020. As a result, certain oil prices turned negative during April 2020 (with the West Texas Intermediate benchmark falling as low as minus U.S.$37.63 a barrel), as weakened demand as a result of the COVID-19 outbreak, coupled with the actions of Saudi Arabia led to buyers being paid to take oil due to storage capacity concerns. The OPEC Reference Basket price remained depressed throughout the remainder of 2020. Oil prices rose over 2021 as COVID-19 vaccination programmes globally led to increased economic activity and a broad increase in economic growth expectations. A further outbreak or the emergence of a new COVID-19 variant could negatively impact the global economy and cause uncertainty. If current global growth expectations are not realised oil prices may decline. See "*The UAE's economy is highly dependent upon its oil revenue*" below for information regarding recent oil prices.

Oil Price Volatility

Prior to the oil price volatility seen from March 2020 as a result of COVID-19, oil prices had been in a recovery phase following a fall in prices that started in 2014. Between July 2014 and January 2016, international crude oil prices declined dramatically falling by approximately 75 per cent. from a monthly average OPEC Reference Basket price per barrel of U.S.$107.89 in July 2014, to a monthly average price of U.S.$26.50 in January 2016. There was a partial correction in global crude oil prices between 2017 and the start of 2020 (according to the OPEC website, the average price of the OPEC Reference Basket was approximately U.S.$66.11 per barrel for the month of January 2020). In February 2022, the Russian invasion of Ukraine led to sharp rises in oil prices. See "*The UAE's economy is highly dependent upon its oil revenue*" below for further information regarding the fluctuation of oil prices since 2020.

A significant reduction in international oil prices, particularly if they remain low for an extended period, may impact the Issuer in a number of ways, including through its exposure to customers whose business is, directly or indirectly, reliant on oil revenue and who become unable to service their debt, through reduced liquidity as deposits from government and government-related entities are withdrawn as these depositors are impacted by low oil prices, and through the impact of low oil prices and the COVID-19 restrictions imposed by the UAE on the UAE's economy and the consequent impact on the Issuer's wholesale and retail customers. All of these factors have the potential to impact the Issuer's assessment of its expected credit losses and may therefore result in significantly increased impairment losses in future periods, at least until the UAE and other economies to which it is exposed recover from the effects of COVID-19 restrictions and low oil prices. Whilst the direct and indirect impact of the COVID-19 outbreak remains uncertain, there can be no assurance that such impairment losses will not significantly increase for future periods, which in turn could have an adverse effect on the Issuer's business, financial condition, results of operations or prospects.

UAE Fiscal Reforms

Additionally, in the UAE, the significant fiscal reforms implemented by the federal government in response to the low oil price environment since 2015 have had, and are expected to continue to have, a significant effect on the UAE economy. The UAE federal government has scaled back capital transfers to government-related entities, reduced government investment, raised electricity and water tariffs and removed fuel subsidies. More recently, lower oil prices and the COVID-19 pandemic have resulted in the UAE cutting its federal spending for 2021 by approximately 5.3 per cent. as compared to 2020. Further, with effect from 1 January 2018, the federal government introduced a value-added tax ("**VAT**") regime in the UAE at a rate of 5 per cent. as part of a broader GCC-wide agreement. The Kingdom of Bahrain joined the GCC VAT regime on 1 January 2019 and Oman implemented VAT on 16 April 2021. Qatar and Kuwait are expected to introduce VAT in the near future. Saudi Arabia, which implemented VAT on 1 January 2018 at the rate of 5 per cent., increased the rate to 15 per cent. effective from 1 July 2020. In addition, on 31 January 2022, the UAE Ministry of Finance announced the introduction of a corporate income tax, which will come into effect on 1 June 2023. See "*Tax changes in the UAE may have an adverse effect on the Issuer*" below for further information.

In the UAE, these measures have become an integral part of a broader federal government strategy aimed at rationalising fiscal expenditure generally and reducing fiscal dependency on hydrocarbon related revenues. When taken in totality with the ongoing oil price volatility, the diversion of significant fiscal revenues to the Saudi Arabian-led military intervention in Yemen since 2015 and domestic job losses in both the private and public sectors across the UAE along with the COVID-19 pandemic, the impact on the UAE economy in recent years has been significant.

Volatility on the Financial Markets

During events of extreme volatility witnessed in financial markets since 2014 there have been periods of reduced liquidity, widening credit spreads and a lack of price transparency in credit and capital markets. These adverse market conditions have impacted investment markets both globally and in the UAE, through increased volatility in asset prices, commodity prices, interest rates and exchange rates.

Between December 2015 and December 2018, the U.S. Federal Reserve increased U.S. overnight interest rates by an aggregate 225 basis points (in nine separate increments of 25 basis points each). However, in 2019, the U.S. Federal Reserve decreased U.S. overnight interest rates by an aggregate 75 basis points (in three separate increments of 25 basis points each) and, in March 2020, U.S. overnight interest rates were further cut to near zero in response to the COVID-19 outbreak. In an attempt to stabilise the economy against the negative impact of COVID-19, the U.S. Federal Reserve, through two separate cuts, decreased U.S. interest rates to effectively zero per cent. in March 2020. Similar cuts were announced by a number of other central banks, including the Bank of England which reduced interest rates to 0.1 per cent. in March 2020, and the central banks of countries such as the Kingdom of Saudi Arabia and the Kingdom of Bahrain, all of whom undertook similar action and cut their key rates in March 2020. Given the peg of the UAE dirham to the U.S. dollar, the UAE also undertook similar action and cut its key rates by 50 basis points in the beginning of March 2020 and by an additional 75 basis points on 16 March 2020. On 6 July 2020, the UAE Central Bank introduced the overnight deposit facility to enable conventional banks operating in the UAE to deposit their surplus liquidity at the UAE Central Bank on an overnight basis. Accordingly, the general stance of the UAE Central Bank's monetary policy would be signaled through the interest rate of the overnight deposit facility, which became the main policy rate of the UAE Central Bank (the "**UAE Base Rate**"). The UAE Central Bank expects that overnight money market rates should hover around the UAE Base Rate under normal market conditions. The UAE Base Rate is anchored to the US Federal Reserve's interest rate on excess reserves (source: The UAE Central Bank). The UAE Central Bank increased the UAE Base Rate by 5 basis points to 15 basis points on 17 June 2021. On 16 March 2022 and on 4 May 2022 respectively, the UAE Central Bank increased the UAE Base Rate by 25 basis points to 0.4 per cent. by 50 basis points to 0.9 per cent., respectively. On 15 June 2022, the UAE Central Bank announced that it decided to raise its base rate by 75 basis points effective from 16 June 2022. This decision was taken following the United States Federal Reserve Board's announcement on 15 June 2022 to increase the interest rate on reserve balances by 75 basis points. The UAE Central Bank also announced that it decided to maintain the interest rate applicable to borrowing short-term liquidity from the UAE Central Bank through all standing credit facilities at 50 basis points above the base rate. Future movements in such rates may adversely impact the Issuer's net interest margins and borrowing costs if the Issuer is unable to adjust to the volatile interest rate environment.

As a result of market conditions prevailing as at the date of this Prospectus, companies to which the Issuer has directly extended or continues to extend credit have experienced, and may continue to experience, decreased revenues, financial losses, insolvency, difficulty in obtaining access to financing and increased funding costs and some of these companies have been unable to meet their debt service obligations or other expenses as they become due, including amounts payable to the Issuer.

The business, results of operations, financial condition and prospects of the Issuer may be materially adversely affected by future periods of unfavourable economic conditions in the other countries of the GCC and emerging markets generally as well as by United States, European and international trading market conditions and/or related factors.

Loan Growth

The Issuer's gross loans and advances, including Islamic financing, (before allowances) increased during 2021 and were AED 88,207 million as at 31 December 2021, compared with AED 77,344 million as at 31 December 2020.

The Issuer's credit exposure and profile continues to be monitored by the Issuer's Board and management to accurately assess credit quality and develop the Issuer's credit risk management policies and procedures.

The Issuer attracts and retains qualified personnel and trains new personnel appropriately to monitor asset quality and to ensure access to appropriately flexible funding sources that do not impose inappropriate constraints on the Issuer's future funding strategy. Furthermore, the development of new products geared towards the Issuer's expanding customer profiles, require credit assessment skills and input from personnel, as well as well-developed and established risk management procedures and systems.

There can be no assurance that the Issuer will obtain the necessary skills and systems to manage the growth of its business and the related risks in a timely manner. Failure to manage growth successfully and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer and could, in turn, adversely affect the market price and liquidity of the Capital Securities.

Principal Shareholder

As at 31 December 2021, approximately 88.6 per cent. of the capital of the Issuer was owned by members of the Al-Ghurair family, either directly or indirectly through companies controlled by them. The Issuer emphasises sound corporate governance and maintains independent non-executive directors on its board, as well as a leadership forum comprised of senior managers who are unrelated to the Al-Ghurair family. See "*Management and Employees – Corporate Governance*", "*Management and Employees – Board of Directors*" and "*Management and Employees – Board of Directors – Management Team*". The Issuer is also subject to the regulatory regime described in "*The United Arab Emirates Banking System and Prudential Regulation*". Nevertheless, the Al-Ghurair family has the ability to influence the Issuer's business significantly through their ability to control actions that require shareholder approval.

Concentration of Deposit Base

Concentrations in the Issuer's deposit portfolio subject it to funding risks from withdrawal of large deposits.

As at 31 December 2021, the Issuer's 15 largest corporate depositors accounted for 23.7 per cent. of total amounts owed to customers compared with 23.7 per cent. as at 31 December 2020. The Issuer intends to reduce the concentration in its deposit base by attracting small and medium enterprises ("**SMEs**") and retail depositors. Failure to reduce such concentration could, however, expose the Issuer to increased liquidity risk and have a material adverse effect on the Issuer's results of operations and financial condition.

The Issuer's Assets and Liabilities Committee ("**ALCO**") meets at least once a month to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and domestic and international economic and financial market conditions.

Although the Issuer considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these large deposits may have an adverse effect on the Issuer's financial condition or results of operations as well as its ability to meet the UAE Central Bank target stable resources ratio of 100 per cent.

Liquidity Risk

Liquidity risk is the risk that the Issuer will be unable to meet the payment obligations associated with its financial liabilities when they fall due and/or replace funds when they are withdrawn. This could arise from the inability of the Issuer to anticipate and provide for unforeseen decreases or changes in funding sources.

An inability on the Issuer's part to access funds or to access the markets from which it raises funds may put the Issuer's position in liquid assets at risk and lead to it being unable to fund operations adequately. A dislocated credit environment also compounds the risk that the Issuer will not be able to access funds at favourable rates. These factors could also lead creditors to form a negative view of the Issuer's liquidity, which could result in less favourable credit ratings, higher borrowing costs and reduced access to funds. In addition, because the Issuer receives a significant proportion of its funding from customer deposits, the Issuer is subject to the risk that customers could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing further liquidity strain. The Issuer's inability to refinance or replace such deposits with alternative funding could materially adversely affect the Issuer's liquidity, business, results of operations, financial condition and prospects.

Although the UAE Ministry of Finance and the UAE Central Bank has supported the domestic banking industry in the past, there can be no assurance that either the UAE Ministry of Finance or the UAE Central Bank will provide any additional support to the Issuer and the domestic banking industry or initiate support if another major economic disruption were to occur in the future.

The UAE Central Bank adopted a policy of a gradual, phased introduction of the capital and liquidity standards for credit institutions, approved by the Basel Committee on Banking Supervision (the "**Basel Committee**") in response to the 2008 global financial crisis (the "**Basel III Reforms**"). As part of this gradual introduction of Basel III in the UAE, the UAE Central Bank informed certain banks in the UAE that they are obliged to report the Basel III Liquidity Coverage Ratio ("**LCR**") and the Net Stable Funding Ratio ("**NSFR**") to the UAE Central Bank.

The LCR is a metric introduced by the Basel Committee as part of the Basel III Reforms to measure a bank's ability to manage a sustained outflow of customer funds in an acute stress event over a 30-day period. The ratio is calculated by taking a financial institution's stock of unencumbered high-quality liquid assets ("**HQLAs**"), which include low-risk, highly marketable asset classes, designed to provide significant sources of liquidity in such a stress scenario, and dividing them by its projected net cash outflows over the immediately following 30-day period. The LCR requires that banks have sufficient HQLAs in their liquidity buffer to cover the difference between expected cash outflows and expected capped cash inflows over a 30-day stressed period. The Basel III Reforms require that the minimum value of the ratio is 100 per cent. (i.e., an institution's stock of HQLAs should at least equal total net cash outflows) while the UAE Central Bank introduced LCR for the relevant UAE banks in a phased manner, setting an initial benchmark of 60 per cent. upon commencement of LCR compliance, increasing to 100 per cent. as of 1 January 2019. See further "*The United Arab Emirates Banking System and Prudential Regulation – Recent Trends in Banking – Liquidity*". As part of the UAE Central Bank's Targeted Economic Support Scheme ("**TESS**"), banks that are subject to the LCR (such as the Issuer) were able to allow their LCR to fall below the regulatory LCR of 100 per cent. provided that the LCR of such banks is higher than or equal to 70 per cent. The changes to the minimum LCR described above are applicable until 30 June 2022 (see further "*The United Arab Emirates Banking System and Prudential Regulation – COVID-19*").

By virtue of the inherent costs associated with LCR compliance and maintaining a sufficient portfolio of HQLAs, the Issuer may be at a competitive disadvantage to its peer UAE based financial institutions who are not required to monitor liquidity through LCR, which may have a material adverse effect on its business, results of operations, financial condition and prospects.

Credit Risk

Credit risk is the risk that a customer or counterparty is unable or unwilling to meet its obligations in accordance with agreed terms and in doing so, causes the Issuer to incur a financial loss. The Issuer manages credit risk by monitoring credit exposures, limiting transactions with specific counterparties, diversifying lending activities, complying with UAE Central Bank regulatory requirements and setting internal concentration limits to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. Concentration in the Issuer's loan portfolios subject it to risks from default by its larger borrowers and/or from exposures to particular sectors of the UAE economy.

As at 31 December 2021, the Issuer's large exposure (greater than AED 750 million) and advances, including Islamic financing, accounted for 26.8 per cent. of gross loans and advances, including Islamic financing, compared with 25 per cent. as at 31 December 2020. The Issuer continues to place emphasis on credit quality and has in place management controls to monitor and manage credit exposure. A failure to achieve this could have a material adverse effect on the Issuer's results of operations and financial condition.

As at 31 December 2021, the Issuer's assets and liabilities stood at AED 89,064 million and AED 74,603 million, respectively, in the UAE, AED 37,079 million and AED 31,949 million, respectively, in the other Middle Eastern countries, and AED 50,911 million and AED 49,477 million, respectively, outside the region. The Issuer regularly reviews and monitors compliance with lending limits to individual financial institutions and country limits.

Credit risk arises from adverse changes in credit quality and recoverability of loans and advances due from counterparties and is inherent in a wide range of the Issuer's businesses. Credit risk arises from deterioration in the credit quality of specific counterparties or borrowers of the Issuer, from a general deterioration in local or global economic conditions or from systemic risks within the financial sector.

The Issuer's gross non-performing loans to gross loans ratio increased from 5.1 per cent. for the year ended 31 December 2020 to 5.2 per cent. for the year ended 31 December 2021. The Issuer's loan-loss coverage level decreased from 130 per cent. for the year ended 31 December 2020 to 128 per cent. as at 31 December 2021.

The Issuer will have to continue to place emphasis on credit quality and to further develop financial and management controls to monitor this credit exposure. A failure to achieve this could have a material adverse effect on the Issuer's results of operations, financial condition and prospects which could, in turn, adversely affect the market price and liquidity of the Capital Securities.

Real Estate Exposure

Real estate exposures of the Issuer in the UAE represent 16 per cent of the total deposits in the UAE and combined exposures to the real estate and construction sector represent 18.5 per cent. of the Issuer's total gross loans and advances, including Islamic financing, as at 31 December 2021, while total funded real estate and construction exposure stood at AED 16.3 billion.

A decrease in real estate prices or a default of the Issuer's main real estate related clients could have an adverse effect on the financial condition or results of operations of the Issuer.

The Issuer has credit-related contingent items and commitments that may lead to potential losses

As part of its normal banking business, the Issuer issues loan commitments, guarantees, letters of credit and other financial products, all of which are accounted for as off-balance sheet until such time as they are funded or cancelled. Although these commitments are largely trade contingent and therefore off-balance sheet, they nonetheless subject the Issuer to related credit and liquidity risks. While the Issuer anticipates that only a portion of the Issuer's obligations in respect of these commitments will be triggered, the Issuer may become obligated to make payments in respect of a greater portion of such commitments, which could have a material adverse effect on the Issuer's funding needs and credit risks. As at 31 December 2021, the Issuer had AED 57,442 million in such contingent liabilities.

Interest Rate Risk

The Issuer is exposed to risks resulting from changes in interest rates that apply to the Issuer's assets and liabilities. In addition, mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets exposes the Issuer to basis risk. Although: (i) the Issuer monitors its interest rate sensitivity by analysing the composition of its assets and liabilities; and (ii) both deposits and loans often reprice simultaneously providing a natural hedge which reduces the interest rate exposure, sharp interest rate movements could have a material adverse effect on the business, operations, financial condition or prospects of the Issuer and could, in turn, adversely affect the market price and liquidity of the Capital Securities.

Foreign Currency Risks

The Issuer is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The UAE dirham is the Issuer's functional currency. Almost all of the Issuer's assets and liabilities are denominated in UAE dirham or U.S. dollars and are match funded in the same currency. As a result, the Issuer is exposed to limited structural cross-currency foreign currency risk. However, the Issuer currently maintains a position in U.S. dollar within limits approved by the Issuer's ALCO.

Dependence on Key Personnel

The Issuer's success in growing its business depends, in part, on its ability to continue to attract, retain and motivate qualified and skilled personnel. The Issuer also relies on its senior management for the implementation of its strategy and day-to-day operations. As competition for skilled personnel, especially at the senior management level, is intense, the Issuer continues to take measures to attract, motivate and retain skilled personnel.

Competition in the UAE for personnel with relevant expertise is also intense due to a disproportionately low number of available qualified and/or experienced individuals compared with demand. If the Issuer is unable to retain key members of its senior management and cannot hire new qualified personnel replacements in a timely manner, this could have a material adverse effect on the business, results of operations, financial condition or prospects of the Issuer and could, in turn, adversely affect the market price and liquidity of Capital Securities.

The Issuer's business is dependent on its information and technology systems which are prone to potential cyber attacks

In common with other financial institutions globally, the threat to the security of the Issuer's information and customer data from cyber attacks is real and continues to grow. The quantity of sensitive financial and personal identifiable information stored by financial institutions globally makes them potential targets of cyber attacks. Activists, rogue states and cyber criminals are amongst those targeting computer systems around the world. Risks to technology and cyber security change rapidly and require continued focus and investment to manage and the Issuer acts accordingly and takes appropriate steps on an ongoing basis to combat such threats and minimise such risks by implementing cybersecurity controls. Given the increasing sophistication and scope of potential cyber attacks however, it is possible that future attacks may lead to significant breaches of security. Failure by the Issuer or the Issuer's customers to adequately manage cybersecurity risk and continually review and update current processes in response to new threats could disrupt the Issuer's business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage the Issuer's reputation and/or brands, which could have a material adverse effect on the Issuer's business, operations and financial condition.

Risk Management Systems

Measurement and management of various types of risks requires substantial resources. Although management believes that the Issuer's information technology and management information systems, policies and procedures are adequate for the purposes of measuring, monitoring and managing the Issuer's exposure to credit, operational, liquidity, interest rate, foreign exchange and other risks in the context of its existing business, as the Issuer's business continues to grow and develop, the Issuer's risk profile also continues to evolve. Management continually assesses the Issuer's risk management infrastructure and resources, and has made considerable investments in information technology over the last few years. In the event that the Issuer's risk management systems are not developed in line with the growth in the Issuer's business and related shifts in its risk exposures, this could have a material adverse effect on the business, operations, financial condition and prospects of the Issuer and could, in turn, adversely affect the market price and liquidity of the Capital Securities.

Operational Risk Management

Operational risk is the risk of loss, whether direct or indirect, due to inadequate or failed internal processes or systems, human error, fraud or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches and technology failure. The Issuer has developed policies, processes and assessment methodologies such as Risk and Control Self-Assessments

("**RCSA**"), to ensure that operational risk is appropriately identified and managed with effective controls. Despite having RCSA policies and controls in place, it is not possible to eliminate any of the operational risks entirely. Operational risks are inherent in the Issuer's day-to-day businesses, may lead to unexpected losses and could have a material adverse effect on the Issuer's business, results of operations, financial condition and prospects which could, in turn, adversely affect the market price and liquidity of the Capital Securities.

Lack of Information and Risk Assessments

Statistical information published in the UAE relating to the economy generally or to specific economic sectors and corporate or financial information relating to companies and other economic enterprises is not as comprehensive as that found in established market economies. Thus, obtaining statistical, corporate and financial information, including audited financial statements and recognised debt rating reports, available to the Issuer relating to its prospective corporate borrowers or retail clients makes the assessment of credit risk, including the valuation of collateral, more challenging. Although the establishment of the Al Etihad Credit Bureau has improved the quality of credit information available to UAE banks, the credit bureau remains in a developing stage. See further "*The United Arab Emirates Banking System and Prudential Regulation – Recent trends in banking – Establishing a credit bureau in the UAE*". Accordingly, the Issuer, in common with other UAE banks, is frequently required to make risk management assessments in the absence of the quality and quantity of information available to lenders in other, more developed markets.

Although the Issuer ordinarily makes an estimation of the net realisable value of collateral on the basis of which it determines applicable impairment assessment and collateralisation requirements, the absence of additional statistical, corporate and financial information may impact the accuracy of the Issuer's assessments of credit risk, thereby increasing the risk of under-provisioning and decreasing the likelihood that the Issuer would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it.

Exposure to Sovereigns

Debt securities held by the Issuer include securities issued by the UAE Central Bank, UAE banks and OECD sovereigns, as well as a range of high-grade bonds. Under statutory requirements, the Issuer's foreign branches are required to maintain a certain portion of their deposits in sovereign or public sector bonds to meet regulatory reserve requirements. Moreover, since the Issuer has scaled down its corporate lending at certain overseas branches, liquid funds at overseas branches have typically been invested in securities of the respective governments. The debt securities held by overseas branches constituted 17.1 per cent. of the investment portfolio as at 31 December 2021. As a result, a failure by the UAE Central Bank or any other relevant overseas government could adversely affect the business, results of operations, financial condition or prospects of the Issuer and could, in turn, adversely affect the market price and liquidity of Capital Securities.

Risk Factors relating to the United Arab Emirates

General Risk; Emerging Market Risk

The Issuer has a majority of its operations and assets in the UAE. Accordingly, its business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and/or the Middle East generally. Moreover, investors should note that the Issuer's business and financial performance could be adversely affected by political, economic and related developments both within and outside countries in which the Issuer operates because of the interrelationship with global financial markets.

Investors should also be aware that investments in developing markets, such as the UAE, are subject to greater risks than investments in more developed markets, including in some cases significant legal, economic and political risks. Moreover, although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including the UAE. Accordingly, the market prices of Capital Securities may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Issuer. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, an investment in Capital Securities is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

The UAE's economy is highly dependent upon its oil revenue

Although the UAE has a more diversified economy than most other countries in the GCC, the UAE's economy, directly and indirectly remains, highly dependent upon its oil revenues.

According to data produced by OPEC, as at 31 December 2020, the UAE had approximately 6.9 per cent. of the world's proven crude oil reserves (giving it the fifth largest oil reserves in the world) (*source:* OPEC Annual Statistical Bulletin 2021) while, according to preliminary data produced by the UAE Federal Competitiveness and Statistics Authority ("**FCSA**"), the hydrocarbon sector (mining and quarrying (including crude oil and natural gas)) accounted for 17.2 per cent. of the UAE's nominal GDP in 2020 and crude oil revenues accounted for 41.4 per cent. of total public revenues in 2020. According to the OPEC website, the price of the OPEC Reference Basket has fluctuated significantly in recent years. Since July 2014, when the monthly average OPEC Reference Basket price per barrel was U.S.$107.89, crude oil prices fell sharply by approximately 75 per cent. to a monthly average price of U.S.$26.50 in January 2016. Although crude oil prices have recovered in recent years, with the monthly average price being U.S.$56.94 per barrel in December 2018 and U.S.$66.48 per barrel in December 2019, 2020 saw significant volatility, with the average price of the OPEC Reference Basket falling from U.S.$65.11 per barrel in January 2020 to U.S.$16.52 per barrel as at 1 May 2020, before recovering to an average price of U.S.$41.47 per barrel for the year ended 31 December 2020. Oil prices rose over the course of 2021 and as at 31 December 2021, the average price of the OPEC Reference Basket was U.S.$ 77.97. The Russian invasion of Ukraine in February 2022 then led to sharp rises in oil prices. The average price of the OPEC Reference Basket for the month beginning on 1 May 2022 was U.S.$113.44.

In addition to a fall in the demand for oil as a result of the spread of COVID-19 (see "*Risks related to the Issuer's business activities and industry – Impact of recent macroeconomic and financial market conditions – COVID-19*"), factors such as the inability of OPEC and its allies to efficiently reach an agreement on oil production levels have had a significant impact on the price of oil. In early March 2020, OPEC officials proposed a plan to OPEC plus, to reduce global oil production by 1.5 per cent. However, the parties were unable to reach agreement and the three-year partnership between OPEC and major non-OPEC providers was terminated as a result. This also resulted in OPEC plus failing to extend the agreement of cutting 2.1 million barrels per day that was set to expire at the end of March 2020. On 7 March 2020, Saudi Arabia announced that it would raise oil output and discount its oil price in April 2020. However, in early April 2020, OPEC plus announced that it had reached an agreement to cut production by 9.7 million barrels a day. Nevertheless, this action failed to sufficiently support the oil market with prices falling in the days following that announcement. This agreement was extended until July 2020, beyond which a gradual easing of the cuts was scheduled. In January 2021, OPEC and Russia agreed to a slight easing of the oil production cuts by 500,000 barrels per day and in September 2021 the OPEC Reference Basket reached a monthly average of U.S.$73.88. However, there can be no assurance that the agreement will be maintained by all relevant parties or achieve its stated goals or what effect the agreement will have on oil prices in the short to medium term.

With this backdrop, oil prices are expected to continue to fluctuate in the future in response to changes in many factors over which the Issuer has no control. Factors that may affect the price of oil include, but are not limited to:

- (in the near to medium term) the effect of COVID-19 and the efficacy and availability of COVID-19 vaccines on global economic activity and the demand for oil and gas. See further "*Risks related to the Issuer's business activities and industry – Impact of recent macroeconomic and financial market conditions*";
- economic and political developments in oil-producing regions, particularly in the Middle East and in Eastern Europe;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members of OPEC and other crude oil-producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;

- other actions taken by major crude oil-producing or consuming countries;
- prices and availability of alternative fuels, global economic and political conditions, prices and availability of new technologies using alternative fuels; and
- global weather and environmental conditions.

The spread of COVID-19 is expected to continue to disrupt trade and supply chain movements, which, together with COVID-19-related travel restrictions, creates conditions for high volatility in capital markets and commodity prices. Overall, the outbreak is expected to add uncertainty to global and domestic economies over the medium term.

If international prices for hydrocarbon products were to materially fall from their current levels and remain there for a significant period of time into the future, this could have a material adverse effect on the UAE's economy which, in turn, could have an adverse effect on the Issuer's business, financial condition and results of operations.

Tax changes in the UAE may have an adverse effect on the Issuer

As at the date of this Prospectus, the Issuer is not currently subject to corporation tax (or any other analogous tax) on its earnings within the UAE. However, on 31 January 2022, the UAE Ministry of Finance announced the introduction of a corporate income tax (the "**CIT**") on business profits, which will come into effect on 1 June 2023 and which will apply to the Issuer from such date. The CIT will apply on the adjusted accounting net profits of a business. It will not apply to taxable profits up to AED 375,000 and will apply at a standard statutory tax rate of 9 per cent. to taxable profits in excess thereof. Further details regarding the CIT are expected to be published by the UAE Ministry of Finance in due course.

Investors should also be aware that with effect from 1 January 2018, certain of the GCC states (including the UAE) have implemented a VAT regime at a rate of 5 per cent., with the remaining GCC states expected to implement VAT in the near future. See further "*Risks related to the Issuer's business activities and industry – Impact of recent macroeconomic and financial market conditions*".

On 11 May 2020, the government of the Kingdom of Saudi Arabia announced that the VAT rate in the Kingdom of Saudi Arabia would increase from 5 per cent. to 15 per cent. as of 1 July 2020. Also on 11 May 2020, the UAE Ministry of Finance stated that there were no immediate plans to increase the rate of VAT in the UAE.

The UAE national legislation implementing this framework agreement was published on 23 August 2017 (UAE Federal Decree Law No. 8 of 2017) and, on 28 November 2017, the UAE Ministry of Finance published accompanying VAT implementing regulations.

The implementation of changes to corporation tax (or any other analogous tax regime) may have a material adverse effect on the Issuer's business, financial condition, results of operations and prospects, which in turn could affect the Issuer's ability to perform its obligations in respect of the Capital Securities. With respect to the introduction of VAT in the UAE, the Issuer's costs have increased and its future profitability could be negatively affected, in comparison to the previous tax-free environment.

Political, Economic and Related Considerations

While, historically, the UAE has enjoyed significant economic growth and relative political stability, there can be no assurance that such growth or stability will continue, particularly in the light of significant adverse financial and economic conditions experienced worldwide since early 2008 and, in particular, in light of the COVID-19 pandemic. Since that time, there has been a slowdown or reversal of the high rates of growth that had been experienced by many countries within the GCC and the UAE, especially in Dubai. Consequently, certain sectors of the GCC economy such as financial institutions that had benefited from such high growth rates, have been adversely affected by the global slowdown.

More recently, economic fallout from the global COVID-19 pandemic may have further severe negative impacts on the global economy and, in turn, the UAE economy. While the UAE Central Bank has taken steps to manage the adverse impact, the UAE's economic trajectory over the medium term may be adversely impacted by regional and global economic impacts of COVID-19.

Finally, although the UAE government's policies have generally resulted in improved economic performance, no assurance can be given that such level of performance will be sustained. Similarly, since 2008, global credit markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads and lack of price transparency in credit markets. The adverse market conditions have impacted investment markets both globally and in the UAE, including adverse changes and increased volatility in interest rates and exchange rates and decreased returns from equity, property and other investments. Such conditions, particularly if they persist for prolonged periods will likely exacerbate the adverse effects that have already been manifested in the UAE property sector.

No assurance can be given that the UAE government will not implement regulations or fiscal or monetary policies, including policies or regulations, or new legal interpretations of existing policies or regulations, relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on such performance and, in turn, on the Issuer's business, financial condition, results of operations or prospects which could adversely affect the market price and liquidity of the Capital Securities.

In addition, much of the revenue to the UAE is generated by the delivery of oil and gas services. The flow of revenue could be disrupted or affected by the occurrence of events or circumstances such as war, terrorist activity, attacks on oil installations and other similar events or a general decline in global oil prices. See further "*Risk Factors – Risk Factors relating to the United Arab Emirates – The UAE's economy is highly dependent upon its oil revenue*".

While the UAE is seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not and there is a risk that regional geopolitical instability could impact the UAE. Instability in the Middle East may result from a number of factors, including government or military regime change, civil unrest or terrorism. In particular, since early 2011 there has been political unrest (leading in certain circumstances to a change in political regime) in a range of countries in the Middle East and North Africa ("**MENA**") region, including Libya, Lebanon, Syria, the Republic of Iraq (Kurdistan) and the Republic of Yemen.

This unrest has ranged from public demonstrations to, in extreme cases, armed conflict (including the multinational conflict with Islamic State (also known as Daesh, ISIS or ISIL)) and the overthrow of existing leadership and has given rise to increased political uncertainty across the region. Further, the UAE, along with other Arab states, is currently participating in the Saudi Arabian-led intervention in Yemen which began in 2015 in response to requests for assistance from the Yemeni government against the Al Houthi militia. The UAE is also a member of another Saudi Arabian-led coalition formed in December 2015 to combat Islamic extremism and, in particular, Islamic State. Additionally, in June 2017, a number of MENA countries including the UAE, the Kingdom of Saudi Arabia, the Kingdom of Bahrain and the Arab Republic of Egypt severed diplomatic relations with the State of Qatar, citing Qatar's alleged support for terrorism and accusing Qatar of creating instability in the region. The termination of diplomatic relations included the withdrawal of ambassadors and imposing trade and travel bans. However, in January 2021, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Egypt and the UAE announced the ending of the blockade of Qatar including the restoration of diplomatic relations and the reopening of land and sea borders.

Furthermore, in September 2019, an attack on two Saudi Aramco oil facilities forced the Saudi government to shut down a significant amount of oil production temporarily and led to a temporary increase in oil prices.

There has also been an escalation of tension between Iran and a number of western governments in 2019 following the United States' withdrawal from the Joint Comprehensive Plan of Action, including the attack on a number of oil tankers in the Strait of Hormuz, the seizure of foreign-flagged oil tankers, missile strikes by Iran on United States military bases in Iraq and the decision of Iran to resume uranium enrichment activities. In addition, in January 2020, the United States carried out a military strike which killed Qassem Soleimani, a senior Iranian military commander. As a result of this military strike, Iran launched missiles at U.S. bases in Iraq. More recently, in August 2020, the UAE and the Kingdom of Bahrain announced the normalisation of relations with Israel.

On 17 January 2022, the Houthis, a militant Yemeni movement, claimed responsibility for what the UAE described as a drone and missile attack on Abu Dhabi at the facilities of Abu Dhabi National Oil Corporation, a state-owned oil company. In the following weeks, UAE forces intercepted three more hostile drones that entered UAE airspace, one of which was claimed by an Iraqi militia group.

The Issuer's business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and the MENA region. It is not possible to predict the occurrence of events or circumstances such as war, terrorism, civil unrest or hostilities, or the impact of such occurrences, and no assurance can be given that the Issuer would be able to sustain its business and/or the development of all of its projects if further adverse political events or circumstances were to occur. Any such occurrences could have a material adverse effect on the Issuer's business, financial condition and results of operations and this could therefore affect the ability of the Issuer to perform its obligations in respect of any Capital Securities.

As at 31 December 2021, 50 per cent. of the Issuer's gross loans and advances, including Islamic financing, are to corporate and commercial borrowers in the UAE and accordingly, a downturn or instability in certain sectors of the UAE or regional economy could have an adverse effect on the Issuer's business, financial condition, results of operations or prospects.

Foreign exchange movements or any alteration to, or abolition of, the foreign exchange "peg" of the UAE dirham to the U.S. dollar may adversely affect the Issuer's profitability

The Issuer maintains its accounts, and reports its results, in the UAE dirham, while the Capital Securities are likely to be denominated and payable in U.S. dollars or other foreign currencies. Although the AED has been 'pegged' at a fixed exchange rate to the U.S. dollar since 22 November 1980, the Issuer is exposed to the potential impact of any alternation to, or abolition of, this foreign exchange 'peg'.

In response to the volatility of oil prices internationally through 2015, oil producing countries with currencies that had been traditionally pegged to the U.S. dollar, faced pressure to de-peg and, in certain cases, did de-peg their currencies. For example, Kazakhstan de-pegged the Kazakhstani tenge from the U.S. dollar on 20 August 2015, which was followed on 21 December 2015 by the removal of the U.S. dollar peg against the Azerbaijani manat.

There is a risk that additional countries may choose to unwind their existing currency peg to the U.S. dollar, both in the GCC and the wider region. While the long-term impacts of such actions are uncertain, it is likely that any such de-pegged currency would face a de-valuation against the U.S. dollar immediately post-removal of the peg. Given the levels of exposure amongst regional financial institutions to other pegged currencies, it is also likely that such currency de-valuation(s) would pose a systemic risk to the regional banking systems in the UAE and across the wider GCC, thereby impacting the open cross-currency positions held by regional banks, including the Issuer.

While the UAE Central Bank has re-iterated its intention to retain the UAE dirham peg against the U.S. dollar, there can be no assurance that the UAE dirham will not be de-pegged in the future or that the existing peg will not be adjusted in a manner that adversely affects the Issuer's result of operations and financial condition. Additionally, any such de-pegging either in the UAE or across the wider region, particularly if such de-pegging is accompanied by the anticipated currency de-valuations against the U.S. dollar (as described above), could have an adverse effect on the Issuer's business, results of operations, financial condition and prospects, and thereby affect the Issuer's ability to perform its obligations under the Capital Securities.

Risk Factors relating to the legal and regulatory environment

Regulation of the Banking Industry

The Issuer conducts activities in a highly regulated market which exposes it to risks arising from laws and regulations that apply to the businesses it operates. These laws and regulations are highly dynamic, may vary between jurisdictions, and can be unclear in their application to particular circumstances, especially in new and emerging areas. This exposes the Issuer to the risk of loss or the imposition of penalties, damages or fines from the failure of the Issuer to meet its legal obligations.

A breach of applicable legislation and/or regulations by the Issuer or its employees could result in criminal prosecution, regulatory censure, significant fines and other sanctions in the jurisdictions in which the Issuer operates. The Issuer may be subject to requests for information, investigations and other reviews by regulators, governmental and other public bodies in connection with business activities in which the Issuer is, or has been, engaged.

The outcome of legal or regulatory matters, both those to which the Issuer is currently exposed and any others which may arise in the future, is difficult to predict. In connection with such matters, the Issuer may incur significant expense, regardless of the ultimate outcome, and any such matters could expose the Issuer to any of the following outcomes: substantial monetary damages, settlements and/or fines; remediation of affected customers and clients; other penalties and injunctive relief; additional litigation; criminal prosecution; the loss of any existing agreed protection from prosecution; regulatory restrictions on the Issuer's business operations including the withdrawal of authorisations; increased regulatory compliance requirements or changes to laws or regulations; suspension of operations; public reprimands; loss of significant assets or business; a negative effect on the Issuer's reputation; loss of confidence by investors, counterparties, clients and/or customers; risk of credit rating agency downgrades; potential negative impact on the availability and/or cost of funding and liquidity; and/or dismissal or resignation of key individuals. Any of these outcomes could have a material adverse effect on the Issuer's business, results of operations, financial condition or prospects, and further on the market price and liquidity of the Capital Securities.

The Issuer is subject to a number of prudential controls designed to maintain the safety and soundness of banks, ensure their compliance with economic, social and other objectives and limit their exposure to risk. These include UAE federal laws and regulations (particularly those of the UAE federal government and the UAE Central Bank). In particular (but without limitation), the Issuer is subject to restrictions on credit limits in respect of real estate and construction financing, major shareholders or to a single customer (based on the Issuer's customer deposits and/or capital and reserves as prescribed by the UAE Central Bank). Such regulations may limit the Issuer's ability to increase its loan portfolio or raise capital or may increase the Issuer's cost of doing business.

Regulatory standards applicable to banks in the UAE and the oversight and enforcement thereof by the regulators may differ from those applicable to banking operations in more highly developed regulatory regimes. There can be no assurance that the UAE Government will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, commissions, fees, inflation or exchange controls, or otherwise take action that could have a material adverse effect on the Issuer's business, results of operations, financial condition or prospects, and further on the market price and liquidity of the Capital Securities.

Although the Issuer works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies which may have a material adverse effect upon the Issuer's business, the value of its assets and its financial condition cannot be predicted and are beyond the control of the Issuer.

A description of the legal and regulatory environment applicable to banks generally in the UAE is set out below under "*The United Arab Emirates Banking System and Prudential Regulation*".

Changes to the Basel regulatory framework as implemented in the UAE may have an effect on the Capital Securities

The Basel Committee has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued the Basel III Reforms, constituting guidance on the eligibility criteria for Tier 1 and Tier 2 Capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. The implementation of the Basel III Reforms began on 1 January 2013; however, the requirements are subject to a series of transitional arrangements that will be phased in over a period of time. The Basel Committee's press release dated 13 January 2011 entitled "*Minimum requirements to ensure loss absorbency at the point of non-viability*" (the "**January 2011 Press Release**") included an additional qualification requirement for Tier 1 and Tier 2 Capital instruments under Basel III.

This requirement (the "**Non-Viability Requirement**") requires contractual or legislative terms providing for, at the option of the relevant authority, the writing-off of the principal amount of Tier 1 and Tier 2 capital instruments or the conversion of such Tier 1 and Tier 2 capital instruments into ordinary shares upon the occurrence of the earlier of: (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the relevant authority (a "**Non-Viability Event**"). This definition is for illustrative purposes only and may not necessarily reflect the meaning ascribed to the term "**Non-Viability Event**" (or any term equivalent thereto) pursuant to any law or regulation implementing Basel III in the UAE.

On 23 February 2017, the UAE Central Bank published the "*Regulations re Capital Adequacy*" (the "**February 2017 Regulations**") in the Official Gazette issue 612, which were effective from 1 February 2017. The February 2017 Regulations are intended to ensure that the capital adequacy of all banks operating in the UAE is in line with the Basel III Reforms, whilst implementing the measures contained in the May 2016 consultation document published by the UAE Central Bank, entitled "*Capital Adequacy Regulation*" (the "**Consultation Document**").

The February 2017 Regulations are supported by accompanying standards (the "**Accompanying Standards**") which were published by the UAE Central Bank on 17 January 2018 in its Circular No. 28/2018 entitled "*Standard re Capital Supply*" and are expressed to be effective from 31 December 2017. In addition, in March 2018 the UAE Central Bank published its "*Standard re Tier Capital Instruments*" (the "**Standard re Tier Capital Instruments**" and together with the Accompanying Standards, the "**Capital Standards**") (and accompanying guidance), expressed to be effective from 31 March 2018. The Capital Standards elaborate on the supervisory expectations of the UAE Central Bank, as set out in the February 2017 Regulations, with respect to the relevant Basel III capital adequacy requirements and how they will be applied by the UAE Central Bank to banks in the UAE. For example, banks which are classified as "domestic systemically important banks" (D-SIBs) by the UAE Central Bank will be required to hold additional capital buffers as notified to them by the UAE Central Bank. In addition, a bank may also be subject to additional capital add-on requirements following a Supervisory Review and Evaluation process of the UAE Central Bank.

Moreover, the UAE Central Bank's Standard Re Tier Capital Instruments requires that a periodic distribution on any additional tier 1 instrument should be cancelled if the relevant UAE bank does not have sufficient "Distributable Items" on the relevant date for payment of (i) such periodic distribution and (ii) certain other payment obligations. However, if the UAE Central Bank's ultimate implementation of any additional counter-cyclical or systemically important buffers is not in accordance with the provisions set out in the February 2017 Regulations and the Capital Standards, the regulatory burden on UAE financial institutions such as the Issuer may further increase which could adversely impact the Issuer's business. In addition, if further counter-cyclical or systemically important buffers are implemented by the UAE Central Bank, it is possible that UAE financial institutions, including the Issuer, will be required to increase the levels of Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital (together, "**Regulatory Capital**") that they hold on their balance sheets.

Such regulations may limit the Issuer's ability to increase its loan portfolio or raise capital or may increase the Issuer's cost of doing business. Any further changes in laws or in UAE Central Bank regulations or policy and/or the manner in which they are interpreted or enforced may affect the Issuer's reserves, revenues and performance and may have a material adverse effect on the Issuer's business, results of operations, financial condition and prospects. Furthermore, non-compliance with regulatory guidelines could expose the Issuer to potential liabilities and fines. Although the Issuer works closely with its regulators and continually monitors compliance with UAE Central Bank regulations and policy, future changes in regulation, fiscal or other policies cannot be predicted and are beyond its control. See further "*The United Arab Emirates Banking System and Prudential Regulation – Recent Trends in Banking – Capital adequacy*".

UAE law and courts and the enforcement of foreign judgments in the Emirate of Dubai

The payments under the Capital Securities are dependent on the Issuer making payments in the manner contemplated under the Capital Securities. If the Issuer fails to do so, it may be necessary to bring an action against the Issuer to enforce its obligations and/or to claim damages as appropriate, which may be costly and time-consuming.

Furthermore, to the extent that enforcement of remedies must be pursued in the UAE, it should be borne in mind that there is limited scope for self-help remedies under UAE law and that generally enforcement of remedies in the UAE must be pursued through the courts.

Under the Conditions, the Issuer has irrevocably agreed for the exclusive benefit of the Noteholders that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings and to settle any disputes which may arise out of or in connection with the Capital Securities and English law-governed documents and for such purposes, irrevocably submits to the jurisdiction of such courts. Any dispute arising from or connected with the Capital Securities may alternatively be referred to arbitration in London in accordance with the rules of the London Court of International Arbitration. Notwithstanding that an arbitral award may be obtained from an arbitral tribunal in London or that a judgment may be obtained in an English court, there is no assurance that the Issuer has, or would at the relevant time have, assets in the UK against which such arbitral award or judgment could be enforced.

The Issuer is a UAE company and is incorporated in and has its operations and the majority of its assets located in the UAE. Under current UAE federal law, the courts in the UAE are unlikely to enforce an English court judgment without re-examining the merits of the claim and may not observe the parties' choice of English law as the governing law of the transaction. In the UAE, foreign law is required to be established as a question of fact and the interpretation of English law by a court in the UAE may not accord with that of an English court. In principle, courts in the UAE recognise the choice of foreign law if they are satisfied that an appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. They will not, however, honour any provision of foreign law which is contrary to public policy, order or morals in the UAE, or to any mandatory law of, or applicable in, the UAE. This may mean that the UAE courts may seek to interpret English law governed documents as if they were governed by UAE law and there can therefore be no certainty that in those circumstances the UAE courts would give effect to such documents in the same manner as the parties may intend.

As the UAE is a civil law jurisdiction, judicial precedents in the UAE have no binding effect on subsequent decisions. In addition, court decisions in Dubai are generally not recorded and there is no formal system of reporting court decisions in the UAE. These factors create greater judicial uncertainty than would be expected in other jurisdictions. The enforcement of a foreign judgment or arbitral award may be a lengthy process in the UAE.

The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**") entered into force in the UAE on 19 November 2006. In the absence of any other multilateral or bilateral enforcement convention, an arbitration award rendered in London should be enforceable in the UAE in accordance with the terms of the New York Convention. Under the New York Convention, the UAE has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V(1) of the New York Convention to refuse enforcement, or the UAE courts find pursuant to Article V(2) of the New York Convention that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the UAE.

In practice, however, there is no established track record as to how the New York Convention provisions would be interpreted and applied by the UAE courts in practice and whether the UAE courts will enforce a foreign arbitration award in accordance with the New York Convention (or any other multilateral or bilateral enforcement convention). This is reinforced by the lack of a system of binding judicial precedent in the UAE and the independent existence of different Emirates within the UAE, some with their own court systems, whose rulings may have no more than persuasive force cross border. Although there are examples of foreign arbitral awards being enforced in the UAE under the New York Convention, there are other cases where the enforcement of foreign arbitral awards has been refused, with, for example, the relevant judge confusing the requirements for the enforcement of domestic awards with the requirements for the enforcement of foreign court judgments under the UAE. Federal Law No. 1 of 1992 as amended, or ignoring the provisions of Article 238 of Federal Law No. 11 of 1992 (as amended by Federal Law No. 30 of 2005) (the Law of Civil Procedure). Federal Cabinet Resolution No. 57 of 2018 (the "**Resolution**") governs the enforcement of foreign arbitral awards. The Resolution confirms that arbitral awards issued in a foreign state may be enforced in the UAE and that the conditions for enforcement of foreign arbitral awards set out in the New York Convention take precedence over the Resolution. However, there is no established track record as to how the overlapping provisions of the New York Convention and the Resolution will be interpreted and applied by the UAE courts in practice. There is also a risk that, notwithstanding the Resolution or the terms of an applicable multilateral or bilateral enforcement convention, the UAE courts may in practice still consider and apply the grounds set out in Federal Law No. 6 of 2018 (the "**UAE Arbitration Law**") related to the enforcement of non-UAE seated arbitral awards (as provided in Articles 52 to 57 of the UAE Arbitration Law) to the enforcement of any non-UAE arbitral award. The UAE Arbitration Law and the Resolution are both new and it is unclear how they will be applied by the UAE courts in practice. Accordingly, there is a risk that a non-UAE arbitral award will be refused enforcement by the UAE courts.

UAE bankruptcy law may adversely affect the holders of Capital Securities

In the event of the Issuer's insolvency, UAE bankruptcy law may adversely affect the Issuer's ability to perform its obligations under the Capital Securities and, in turn, may adversely affect the Issuer's ability to make payments to Noteholders. There is little precedent to predict how claims by or on behalf of the Noteholders against the Issuer upon its insolvency would be resolved, and therefore there can be no assurance that Noteholders will receive payment of their claims in full or at all in these circumstances.

Risks which are material for the purpose of assessing the risks associated with the terms of the Capital Securities

The Capital Securities are subordinated, conditional and unsecured obligations of the Issuer

Prospective investors should note that the payment obligations of the Issuer under the Conditions rank: (i) subordinate and junior to all Senior Obligations; (ii) *pari passu* with all *Pari Passu* Obligations; and (iii) in priority only to all Junior Obligations. Accordingly, the payment obligations of the Issuer under the Conditions rank junior to all unsubordinated payment obligations of the Issuer (including payment obligations to depositors of the Issuer in respect of their due claims) and all subordinated payment obligations of the Issuer to which the payment obligations under the Conditions rank or are expressed to rank junior, and *pari passu* with all subordinated payment obligations of the Issuer which rank or are expressed to rank *pari passu* with the payment obligations under the Conditions.

Prospective investors should also note that the payment obligations of the Issuer under the Conditions are conditional upon the following conditions (together, the "**Solvency Conditions**"):

(a) the Issuer being Solvent at all times from (and including) the first day of the relevant Interest Period (or the Issue Date in the case of the first Interest Period) to (and including) the time of payment of the relevant Obligations;

(b) the Issuer being capable of making payment of the relevant Obligations and any other payment required to be made on the relevant date to a creditor in respect of all Senior Obligations and all *Pari Passu* Obligations and still be Solvent immediately thereafter; and

(c) the total share capital (including, without limitation, retained earnings) of the Issuer being greater than zero at all times from (and including) the first day of the relevant Interest Period (or the Issue Date in the case of the first Interest Period) to (and including) the time of payment of the relevant Obligations.

Further, the payment obligations of the Issuer under the Capital Securities are unsecured and no collateral is or will be given by the Issuer in relation thereto.

Notwithstanding any other provisions in the Conditions, to the extent that any of the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of the Issuer has been issued by a court in the UAE, all claims of the holders of the Capital Securities under the Capital Securities will be extinguished and the Capital Securities will be cancelled without any further payment to be made by the Issuer under the Capital Securities. As a result, holders of the Capital Securities would lose the entire amount of their investment in the Capital Securities.

In addition, a holder of the Capital Securities may exercise its enforcement rights in relation to the Capital Securities only in the manner provided in Condition 11 (*Enforcement Events*). If an Enforcement Event occurs and the Issuer fails to satisfy any of the Solvency Conditions or if a bankruptcy order in respect of the Issuer has been issued by a court in the UAE, the claims of the holders of the Capital Securities under the Capital Securities will be extinguished without any further payment to be made by the Issuer under the Capital Securities.

Furthermore, any indication or perceived indication that any of the Solvency Conditions may not be satisfied or that a bankruptcy order may be issued may have a material adverse effect on the market price of the Capital Securities.

No limitation on issuing senior securities

Other than the limitations in relation to the issue of further Additional Tier 1 Capital by the Issuer as set out in Condition 4.4 (*Status and Subordination – Other Issues*) which limits the circumstances in which Additional Tier 1 Capital of the Issuer can be issued that ranks senior to the Capital Securities, there is no restriction on the Issuer incurring additional indebtedness or issuing securities or creating any guarantee or contractual support arrangement which would rank senior to the Capital Securities, and which may reduce the likelihood of the Solvency Conditions being met and/or the amount recoverable by holders of the Capital Securities on a winding-up of the Issuer.

Payments of Interest Payment Amounts are conditional upon certain events and may be cancelled and are non-cumulative

No Interest Payment Amounts are payable on the relevant Interest Payment Date if a Non-Payment Event (as more particularly provided in Condition 6.1 (*Interest Cancellation – Non-Payment Event*)) occurs. Each of the following events is a Non-Payment Event for the purposes of the Conditions with respect to each Interest Payment Date:

(i) the Interest Payment Amount payable, when aggregated with any distributions or amounts payable by the Issuer on any *Pari Passu* Obligations having the same date in respect of payment of such distributions or amounts as, or otherwise due and payable on, the date for payment of the relevant Interest Payment Amount, exceeds, on the relevant date for payment of such Interest Payment Amount, the Distributable Items;

(ii) the Issuer is, on that Interest Payment Date, in breach of the Applicable Regulatory Capital Requirements (including any payment restrictions due to breach of capital buffers imposed on the Issuer by the Regulator, as appropriate) or payment of the relevant Interest Payment Amount would cause it to be in breach thereof;

(iii) the Regulator having notified the Issuer that the Interest Payment Amount due on that Interest Payment Date should not be paid for any reason the Regulator may deem necessary;

(iv) the Solvency Conditions are not satisfied (or would no longer be satisfied if the relevant Interest Payment Amount was paid); or

(v) the Issuer, in its sole discretion, has elected that Interest Payment Amounts shall not be paid to holders of the Capital Securities on such Interest Payment Date (other than in respect of any amounts due on any date on which the Capital Securities are to be redeemed in full, in respect of which this paragraph (v) does not apply), including, without limitation, if the Issuer incurs a net loss during the relevant Interest Period.

In relation to paragraph (i) above, as at the Issue Date, "Distributable Items" is defined in the Conditions as "the amount of the Issuer's consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to the extent not restricted from distribution by applicable law) after the transfer of any amounts to non-distributable reserves, all as set out in the most recent audited or (as the case may be) auditor reviewed consolidated financial statements of the Issuer or any equivalent or successor term from time to time as prescribed by the Capital Regulations, including the applicable criteria for Tier 1 Capital instruments that do not constitute Common Equity Tier 1 Capital". As at 31 December 2021, the Issuer's Distributable Items amounted to AED 17.9 billion.

However, current guidance issued by the Regulator has indicated that the definition of "Distributable Items" may in the future be calculated by reference to the latest audited or (as the case may be) auditor reviewed non-consolidated financial statements. To the extent that this change comes into effect in the future, the level of Distributable Items as so calculated might be lower than otherwise would be the case if the change does not take effect.

In relation to paragraph (ii) above, payment restrictions will also apply in circumstances where the Issuer does not meet certain capital buffer requirements, namely, payment restrictions in an amount equal to the Maximum Distributable Amount (as defined below) if the combined capital buffer requirement is not satisfied pursuant to the Capital Regulations. In the event of a breach of the combined buffer requirement, under the Capital Regulations, the restrictions will be scaled according to the extent of the breach of the combined buffer requirement and calculated as a percentage of the Issuer's profits for the most recent relevant period. Such calculation will result in a maximum distributable amount (the "**Maximum Distributable Amount**") in each relevant period. As an example, the scaling is such that in the lowest quartile of the combined buffer requirement, no discretionary distributions will be permitted to be paid. As a consequence, in the event of breach of the combined buffer requirement it may be necessary to reduce payments that would, but for the breach of the combined buffer requirement, be discretionary, including Interest Payment Amounts in respect of the Capital Securities. In such circumstances, the aggregate amount of distributions which the Issuer can make on account of dividends, Interest Payment Amounts and redemption amounts on its Additional Tier 1 instruments (including the Capital Securities) and certain variable remuneration (such as bonuses) or discretionary pension benefits will be limited. Furthermore, there can be no assurance that the combined buffer requirement applicable to the Issuer will not be increased in the future, which may exacerbate the risk that discretionary distributions, including payments of Interest Payment Amounts in respect of the Capital Securities, are cancelled.

In the event of a Non-Payment Event, certain restrictions on declaration of dividends or distributions and redemption of certain securities by the Issuer will apply in accordance with Condition 6.3 (*Interest Cancellation – Dividend and Redemption Restrictions*). However, the holders of the Capital Securities shall have no claim in respect of any Interest Payment Amount not paid as a result of a Non-Payment Event and the non-payment of any Interest Payment Amount in such a circumstance shall not constitute an Enforcement Event. The Issuer shall not make or have any obligation to make any subsequent payment in respect of any such unpaid amount. Any failure to provide notice of a Non-Payment Event in accordance with the Conditions will not invalidate the cancellation of the relevant payment of the Interest Payment Amount. In the absence of notice of a Non-Payment Event having been given in accordance with Condition 6.2 (*Interest Cancellation – Effect of Non-Payment Event*), the fact of non-payment of an Interest Payment Amount on the relevant Interest Payment Date shall be evidence of the occurrence of a Non-Payment Event.

In such case, the holders of the Capital Securities will not receive Interest Payment Amounts on their investment in the Capital Securities and shall not have any claim in respect thereof. Any non-payment of Interest Payment Amounts or perceived risk of such non-payment may have a material adverse effect on the market value of the Capital Securities.

Perpetual securities

The Capital Securities are perpetual securities which have no scheduled repayment date. Holders of the Capital Securities have no ability to require the Issuer to redeem their Capital Securities unless, and subject to the restrictions described in Condition 11 (*Enforcement Events*), an Enforcement Event occurs. The Issuer has the option to redeem the Capital Securities in certain circumstances as more particularly described in Condition 9 (*Redemption and Variation*), although there is no assurance that it will do so.

This means that the holders of the Capital Securities should be aware that they may be required to bear the financial risks of an investment in the Capital Securities and have no ability to cash in their investment, except:

(i) if the Issuer exercises its rights to redeem the Capital Securities in accordance with Condition 9 (*Redemption and Variation*);

(ii) upon the occurrence of an Enforcement Event, to the extent possible under the limited remedies set out in Condition 11 (*Enforcement Events*); or

(iii) by selling their Capital Securities.

The exercise of (or perceived likelihood of exercise of) any such redemption feature of the Capital Securities may limit their market value, which is unlikely to rise substantially above the price at which the Capital Securities can be redeemed.

There can be no assurance that holders of the Capital Securities will be able to reinvest the amount received upon redemption or sale at a rate that will provide the same rate of return as their investment in the Capital Securities.

The right to receive repayment of the principal amount of the Capital Securities and the right for any further interest will be permanently written-down upon the occurrence of a Non-Viability Event

If a Non-Viability Event occurs, the Prevailing Principal Amount of the Capital Securities then outstanding will be written-down in whole or, in exceptional cases, in part on a *pro rata* basis, in each case as solely determined by the Regulator. Pursuant to a Write-down, the rights of any holder of Capital Securities for payment of any amounts under or in respect of the Capital Securities (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Enforcement Event), in a proportion corresponding to the relevant Write-down Amount (and any related unpaid Interest Payment Amounts), shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Event or notice in relation thereto. In the case of a Write-down in whole, the Capital Securities shall be cancelled. As a result, upon the occurrence of a Non-Viability Event, the holders of the Capital Securities may lose the entire amount of their investment in the Capital Securities.

In the exceptional cases in which a Write-down in part is required by the Regulator, a Write-down may occur on one or more occasions as solely determined by the Regulator provided, however, that the principal amount of a Capital Security shall never be reduced to below nil.

Furthermore, upon the occurrence of any Write-down in part pursuant to Condition 10 (*Write-Down at the Point of Non-Viability*), Interest Payment Amounts will accrue on the reduced principal amount of the Capital Securities (subject to the Conditions). Also, any amounts arising as a result of, or due and payable upon the occurrence of, an Enforcement Event or any redemption of the Capital Securities will be by reference to such reduced principal amount of the Capital Securities.

A "**Non-Viability Event**" means that the Regulator has notified the Issuer in writing that it has determined that the Issuer has, or will become, Non-Viable without: (i) a Write-down; or (ii) a public injection of capital (or equivalent support).

The Issuer shall be "**Non-Viable**" if: (a) it is insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business; or (b) any other event or circumstance occurs, which is specified as constituting non-viability by the Regulator, or in the Capital Regulations.

The Conditions do not in any way impose restrictions on the Issuer following a Write-down, including restrictions on making any distribution or equivalent payment in connection with any Junior Obligations (including, without limitation, any ordinary shares of the Issuer) or any *Pari Passu* Obligations.

The circumstances triggering a Write-down are unpredictable

The occurrence of a Non-Viability Event is inherently unpredictable and depends on a number of factors, many of which are outside of the Issuer's control. The occurrence of a Non-Viability Event is subject to, *inter alia*, a subjective determination by the Regulator. As a result, the Regulator may require a Write-down in circumstances that are beyond the control of the Issuer and with which the Issuer or the holder of the Capital Securities may not agree. Furthermore, although the Conditions provide that the Regulator may require a Write-down in whole or in part upon the occurrence of a Non-Viability Event, the current stated position of the Regulator is that a Write-down in whole will apply in all such cases save only in exceptional cases as determined by the Regulator in its sole discretion.

Investors should also be aware that the application of a non-viability loss absorption feature similar to Condition 10 (*Write-Down at the Point of Non-Viability*) has not been tested in the UAE and therefore some degree of uncertainty exists in its application. The exercise (or perceived likelihood of exercise) of any such power by the Regulator or any suggestion of such exercise could materially adversely affect the value of the Capital Securities and could lead to holders losing some or all of their investment in the Capital Securities. As a result of a Write-down, a holder may suffer a loss in respect of its holding of the Capital Securities ahead of, or without, any loss being required to be borne by a shareholder of the Issuer in respect of its shareholding.

The financial viability of the Issuer will also depend in part on decisions made by the Issuer in relation to its business and operations, including the management of its capital position. In making such decisions, the Issuer may not have regard to the interests of the holders of the Capital Securities and, in particular, the consequences for the holders of the Capital Securities of any such decisions and there can be no assurance in any such circumstances that the interests of the Issuer, its shareholders and the Regulator will be aligned with those of the holders of the Capital Securities.

The Conditions contain limited Enforcement Events and remedies

The Enforcement Events in the Conditions are limited to: (i) a payment default by the Issuer for a period of seven days in the case of any principal and 14 days in the case of interest (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Event); (ii) a final determination is made by a court or other official body that the Issuer is insolvent or bankrupt or unable to pay its debts as they fall due; (iii) an administrator is appointed, an order is made by a court of competent jurisdiction or an effective resolution passed for the winding-up or dissolution or administration of the Issuer, or the Issuer shall apply or petition for a winding-up or administration order in respect of itself or cease, or through an official action of its board of directors threaten to cease, to carry on all or substantially all of its business or operations, in each case except: (a) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the holders of the Capital Securities; or (b) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or (iv) any event occurs which under the laws of the UAE has an analogous effect to those described in (ii) and (iii) above.

Moreover, pursuant to Condition 11 (*Enforcement Events*), upon the occurrence of an Enforcement Event, limited remedies are available to a holder of the Capital Securities. A holder of the Capital Securities may give notice to the Issuer (at the specified office of the Fiscal Agent) that the Capital Securities are due and payable at the Early Redemption Amount and thereafter: (1) institute any steps, actions or proceedings for the winding-up of the Issuer; and/or (2) prove in the winding-up of the Issuer; and/or (3) claim in the liquidation of the Issuer for such payment; and/or (4) take such other steps, actions or proceedings to enforce, prove or claim for such payment which, under the laws of the UAE, have an analogous effect to the actions referred to in (1) to (3) above (in each case, without prejudice to Condition 4.2 (*Status and Subordination – Subordination of the Capital Securities*), which provides (amongst other things) that if the Solvency Conditions are not satisfied or if a bankruptcy order in respect of the Issuer has been issued by a court in the UAE, all claims of the holders of the Capital Securities under the Capital Securities will be extinguished). In addition, any holder of the Capital Securities may at its discretion institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under the Conditions other than any payment obligation of the Issuer (including, without limitation, payment of any principal or satisfaction of any payments in respect of the Conditions, including any damages awarded for breach of any obligations).

Furthermore, pursuant to Condition 4.2 (*Status and Subordination – Subordination of the Capital Securities*), claims in respect of Senior Obligations of the Issuer would first have to be satisfied in any winding-up or liquidation before holders of the Capital Securities may expect to obtain any amounts in respect of the Capital Securities and, prior thereto, holders of the Capital Securities may only have limited (if any) ability to influence the conduct of such winding-up or liquidation. If an Enforcement Event occurs and the Issuer has failed to satisfy any of the Solvency Conditions or if a bankruptcy order in respect of the Issuer has been issued by a court in the UAE, all claims of the holders of the Capital Securities under the Capital Securities will be extinguished, and the Capital Securities will be cancelled without any further payment to be made by the Issuer under the Capital Securities.

Resettable fixed rate instruments have a market risk

A holder of an instrument with a fixed interest rate that will be reset during the term of the instrument (as will be the case for the Capital Securities with effect from each Reset Date if not previously redeemed and/or purchased and cancelled) is exposed to the risk of fluctuating interest rate levels and uncertain interest income. While the expected interest rate on the Capital Securities is fixed until the First Call Date (with a reset of the Interest Rate on the First Call Date as set out in the Conditions and every fifth anniversary thereafter), the current investment return rate in the capital markets (the "**market return rate**") typically changes on a daily basis. As the market return rate changes, the market value of the Capital Securities may also change, but in the opposite direction. If the market return rate increases, the market value of the Capital Securities would typically decrease. If the market return rate falls, the market value of the Capital Securities would typically increase. The holders of Capital Securities should be aware that movements in these market return rates can adversely affect the market value of the Capital Securities and can lead to losses for the holders of Capital Securities if they sell the Capital Securities.

Variation upon the occurrence of a Capital Event or a Tax Event

Upon the occurrence of a Capital Event or a Tax Event, the Issuer may, subject as provided in Condition 9.1(c) (*Redemption and Variation – Redemption or Variation due to Taxation*) or Condition 9.1(d) (*Redemption and Variation – Redemption or Variation for Capital Event*) (as the case may be) and without the need for any consent of the holders of the Capital Securities, vary the terms of the Capital Securities such that they become or remain (as appropriate) Qualifying Tier 1 Instruments and, in the case of a variation upon the occurrence of a Tax Event, so that the relevant withholding or deduction otherwise arising from the relevant Tax Law Change is no longer required.

A Capital Event will arise if the Issuer is notified in writing by the Regulator to the effect that the outstanding principal amount (or the amount that qualifies as regulatory capital, if some amount of the Capital Securities is held by the Issuer or whose purchase is funded by the Issuer) of the Capital Securities would cease to be eligible to qualify, in whole or in part, for inclusion in the consolidated Additional Tier 1 Capital of the Issuer (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital), and provided that the Issuer satisfies the Regulator that such non-qualification was not reasonably foreseeable at the time of issuance of the Capital Securities.

A Tax Event will arise if, on the occasion of the next payment due under the Capital Securities, the Issuer has or will become obliged to pay Additional Amounts (whether or not a Non-Payment Event has occurred), as a result of a Tax Law Change that becomes effective on or after the Issue Date (and such requirement cannot be avoided by the Issuer taking reasonable measures available to it), and provided that the Issuer satisfies the Regulator that such Tax Law Change was not reasonably foreseeable at the time of issuance of the Capital Securities.

The tax and stamp duty consequences of holding the Capital Securities following variation as contemplated in Condition 9 (*Redemption and Variation*) could be different for certain holders of the Capital Securities from the tax and stamp duty consequences for them of holding the Capital Securities prior to such variation and the Issuer shall not be responsible to any holder of the Capital Securities for any such consequences in connection therewith. No assurance can be given as to whether any of these changes will negatively affect any particular holder of the Capital Securities or the market value of the Capital Securities.

The Capital Securities may be redeemed early or purchased subject to certain requirements

Upon the occurrence of a Tax Event or a Capital Event, or at its option on the First Call Date or on any Interest Payment Date following the First Call Date, the Issuer may, having given not less than 10 nor more than 15 days' prior notice to the holders of the Capital Securities in accordance with Condition 15 (*Notices*), redeem in accordance with the Conditions all (but not some only) of the Capital Securities at the Tax Redemption Amount, Capital Event Redemption Amount or Early Redemption Amount (as applicable) (as more particularly described in Condition 9.1(b) (*Redemption and Variation – Issuer's Call Option*), Condition 9.1(c) (*Redemption and Variation – Redemption or Variation due to Taxation*) and Condition 9.1(d) (*Redemption and Variation – Redemption or Variation for Capital Event*)).

Any redemption of the Capital Securities is subject to the requirements in Condition 9.1(a) (*Redemption and Variation – No Fixed Redemption Date and Conditions for Redemption and Variation*), including (to the extent then required) obtaining the prior consent of the Regulator. There can be no guarantee that the consent of the Regulator will be received on time or at all.

There is no assurance that the holders of the Capital Securities will be able to reinvest the amount received upon redemption at a rate that will provide the same rate of return as their investment in the Capital Securities. Potential investors should consider re-investment risk in light of other investments available at that time.

The exercise of (or perceived likelihood of exercise of) the redemption features of the Capital Securities may limit their market value, which is unlikely to rise substantially above the price at which the Capital Securities can be redeemed.

Any purchase of the Capital Securities by the Issuer or any of its subsidiaries is subject to the requirements in Condition 9.2 (*Redemption and Variation – Purchase*), including (to the extent then required by the Regulator or the Capital Regulations) obtaining the prior written consent of the Regulator. There can be no guarantee that the written consent of the Regulator will be received on time or at all, particularly as the Issuer has been notified by the Regulator that it will provide such written consent in exceptional cases only.

Modification

The Conditions contain provisions for calling meetings of holders of the Capital Securities to consider matters affecting their interests generally. These provisions permit defined majorities to bind all holders of the Capital Securities including holders of the Capital Securities who did not attend and vote at the relevant meeting and holders of the Capital Securities who voted in a manner contrary to the majority.

The Conditions also provide that the Fiscal Agent and the Issuer may agree, without the consent of holders of the Capital Securities, to any modification of any Capital Securities, in the circumstances specified in Condition 16 (*Meetings of Holders of the Capital Securities and Modification*).

The Conditions also provide that the Issuer may, without the consent or approval of the holders of the Capital Securities, vary the Conditions provided that they become or, as appropriate, remain, Qualifying Tier 1 Instruments and, in the case of a variation upon the occurrence of a Tax Event, so that the relevant withholding or deduction otherwise arising from the relevant Tax Law Change is no longer required, as provided in Condition 9.1(c) (*Redemption and Variation – Redemption or Variation due to Taxation*) and Condition 9.1(d) (*Redemption and Variation – Redemption or Variation for Capital Event*).

Trading in the clearing systems

As the Capital Securities have a denomination consisting of U.S.$200,000, and integral multiples of U.S.$1,000 in excess thereof, it is possible that such Capital Securities may be traded in amounts that are not integral multiples of U.S.$200,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than U.S.$200,000 in his account with the relevant clearing system at the relevant time may not receive an Individual Certificate in respect of such holding (should Individual Certificates be printed) and would need to purchase a principal amount of Capital Securities such that its holding amounts to at least U.S.$200,000 in order to be eligible to receive an Individual Certificate.

If Individual Certificates are issued, holders should be aware that Individual Certificates which have a denomination that is not an integral multiple of U.S.$200,000 may be illiquid and difficult to trade.

Change of law

The Conditions are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practices after the date of this Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Issuer to make payments under the Capital Securities.

Reliance on Euroclear and Clearstream, Luxembourg procedures

The Capital Securities will be represented on issue by a Global Certificate that will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg (together, the "**ICSDs**"). Except in the circumstances described in the Global Certificate, investors will not be entitled to receive Individual Certificates. The ICSDs and their respective direct and indirect participants will maintain records of the beneficial interests in the Global Certificate. While the Capital Securities are represented by the Global Certificate, investors will be able to trade their beneficial interests only though the ICSDs and their respective participants. While Capital Securities are represented by the Global Certificate, the Issuer will discharge its payment obligation under such Capital Security by making payments through the relevant clearing systems. A holder of a beneficial interest in the Global Certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Capital Securities. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificate.

Holders of beneficial interests in the Global Certificate will not have a direct right to vote in respect of the Capital Securities so represented. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

Credit ratings may not reflect all risks

As at the date of this Prospectus, the Capital Securities are not rated. However, one or more independent credit rating agencies may assign a credit rating to the Capital Securities. Any rating may not reflect the potential impact of all risks related to the transaction structure, the market, the additional factors discussed above, or any other factors that may affect the value of the Capital Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised, suspended or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted under the EU CRA Regulation from using credit ratings for regulatory purposes in the EEA, unless such ratings are issued by a credit rating agency established in the EEA and registered under the EU CRA Regulation (and such registration has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). Such general restriction will also apply in the case of credit ratings issued by third country non-EEA credit rating agencies, unless the relevant credit ratings are endorsed by an EEA-registered credit rating agency or the relevant third country rating agency is certified in accordance with the EU CRA Regulation (and such endorsement action or certification, as the case may be, has not been withdrawn or suspended, subject to transitional provisions that apply in certain circumstances). The list of registered and certified rating agencies published by ESMA on its website in accordance with the EU CRA Regulation is not conclusive evidence of the status of the relevant rating agency included in such list, as there may be delays between certain supervisory measures being taken against a relevant rating agency and publication of an updated ESMA list.

Investors regulated in the UK are subject to similar restrictions under the UK CRA Regulation. As such, UK regulated investors are required to use for UK regulatory purposes ratings issued by a credit rating agency established in the UK and registered under the UK CRA Regulation. In the case of ratings issued by third country non-UK credit rating agencies, third country credit ratings can either be: (i) endorsed by a UK registered credit rating agency; or (ii) issued by a third country credit rating agency that is certified in accordance with the UK CRA Regulation. Note this is subject, in each case, to: (a) the relevant UK registration, certification or endorsement, as the case may be, not having been withdrawn or suspended; and (b) transitional provisions that apply in certain circumstances. In the case of third country ratings, for a certain limited period of time, transitional relief accommodates continued use for regulatory purposes in the UK, of existing pre-2021 ratings, provided the relevant conditions are satisfied.

If the status of the rating agency rating the Capital Securities changes for the purposes of the EU CRA Regulation or the UK CRA Regulation, relevant regulated investors may no longer be able to use the rating for regulatory purposes in the EEA or the UK, as applicable, and the Capital Securities may have a different regulatory treatment, which may impact the value of the Capital Securities and their liquidity in the secondary market. Certain information with respect to the credit rating agencies and ratings is set out on the cover of this Prospectus.

Taxation risks on payments

Payments made by the Issuer in respect of the Capital Securities could become subject to taxation. Condition 12 (*Taxation*) requires the Issuer to pay additional amounts in certain circumstances in the event that any withholding or deduction is imposed by the UAE or Dubai in respect of any interest payments under the Capital Securities (but not in respect of principal), such that net amounts received by the holders of the Capital Securities after such withholding or deduction shall equal the respective amounts of interest which would otherwise have been receivable in respect of the Capital Securities in the absence of such withholding or deduction.

Risks related to the market generally

Set out below is a brief description of the principal market risks, including liquidity risk and exchange rate risk:

Absence of secondary market/limited liquidity

There is no assurance that a secondary market for the Capital Securities will develop or, if it does develop, that it will provide the holders of the Capital Securities with liquidity of investment or that it will continue for the life of the Capital Securities. The Capital Securities generally may have a more limited secondary market liquidity and may be subject to greater price volatility than conventional debt securities as they are perpetual securities (see "*Risk Factors – Risks which are material for the purpose of assessing the risks associated with the terms of the Capital Securities – Perpetual securities*"), are subordinated (see "*Risk Factors – Risks which are material for the purpose of assessing the risks associated with the terms of the Capital Securities – The Capital Securities are subordinated, conditional and unsecured obligations of the Issuer*") and payments of Interest Payment Amounts may be restricted in certain circumstances (see "*Risk Factors – Risks which are material for the purpose of assessing the risks associated with the terms of the Capital Securities – Payments of Interest Payment Amounts are conditional upon certain events and may be cancelled and are non-cumulative*").

Application has been made for the Capital Securities to be: (i) admitted to listing on the Luxembourg Official List; and (ii) admitted to trading on the Luxembourg Regulated Market. However, there can be no assurance that any such listing will occur or will enhance the liquidity of the Capital Securities.

Illiquidity may have an adverse effect on the market value of the Capital Securities. Accordingly, a holder of the Capital Securities may not be able to find a buyer to buy its Capital Securities readily or at prices that will enable the holder of the Capital Securities to realise a desired yield. The market value of the Capital Securities may fluctuate and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Capital Securities. Accordingly, the purchase of Capital Securities is suitable only for investors who can bear the risks associated with a lack of liquidity in the Capital Securities and the financial and other risks associated with an investment in the Capital Securities.

Exchange rate risks and exchange controls

The Issuer will pay any principal and interest payable on the Capital Securities in U.S. dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than U.S. dollars. These include the risk that exchange rates may significantly change (including changes due to devaluation of U.S. dollars or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to U.S. dollars would decrease: (i) the Investor's Currency-equivalent yield on the Capital Securities; (ii) the Investor's Currency-equivalent value of the principal payable on the Capital Securities; and (iii) the Investor's Currency-equivalent market value of the Capital Securities.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

OVERVIEW OF THE ISSUANCE

The following description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Prospectus. Any decision to invest in the Capital Securities should be based on a consideration of this Prospectus as a whole.

Words and expressions defined in "*Terms and Conditions of the Capital Securities*" shall have the same meanings in the following description.

Issuer:	Mashreqbank psc
Description:	U.S.$300,000,000 Perpetual Additional Tier 1 Capital Securities.
Sole Structuring Agent:	Merrill Lynch International.
Joint Lead Managers:	Citigroup Global Markets Limited, Emirates NBD Bank P.J.S.C., J.P. Morgan Securities plc, Mashreqbank psc, Merrill Lynch International, Société Générale and Standard Chartered Bank.
Fiscal Agent and Calculation Agent:	The Bank of New York Mellon, London Branch.
Registrar and Transfer Agent:	The Bank of New York Mellon SA/NV, Dublin Branch.
Issue Date:	7 July 2022.
Issue Price:	100 per cent.
Interest Payment Dates:	7 January and 7 July in every year, commencing on 7 January 2023.
Interest Payment Amounts:	Subject to Condition 6 (*Interest Cancellation*), the Capital Securities shall, during the Initial Period, bear interest at a rate of 8.500 per cent. per annum (the "**Initial Interest Rate**") on the Prevailing Principal Amount of the Capital Securities (being the aggregate of a margin of 5.448 per cent. per annum (the "**Margin**") and the Relevant Five-Year Reset Rate). The Interest Payment Amount payable on each Interest Payment Date during the Initial Period shall be U.S.$42.50 per U.S.$1,000 in principal amount of the Capital Securities. For the purpose of calculating payments of interest following the Initial Period, the Interest Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Five-Year Reset Rate on the relevant U.S. Securities Determination Date, as determined by the Calculation Agent (see Condition 5 (*Interest*)). If a Non-Payment Event occurs, the Issuer shall not pay the corresponding Interest Payment Amount and the Issuer shall not have any obligation to make any subsequent payment in respect of any unpaid Interest Payment Amount as more particularly described in Condition 6 (*Interest Cancellation*). In such circumstances, interest will not be cumulative and any interest which is not paid will not accumulate or compound and holders of the Capital Securities will have no right to receive such interest at any time, even if interest is paid in the future.
Form of Capital Securities:	The Capital Securities will be issued in registered form. The Capital Securities will be represented on issue by ownership interests in a Global Certificate which will be deposited with, and registered in the name of a nominee of, a common

depositary for Euroclear and Clearstream, Luxembourg. Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by each relevant clearing system and its participants. Individual Certificates evidencing a holding of Capital Securities will be issued in exchange for interests in the Global Certificate only in limited circumstances.

Clearance and Settlement: Holders of the Capital Securities must hold their interest in the Global Certificate in book-entry form through Euroclear or Clearstream, Luxembourg. Transfers within and between Euroclear and Clearstream, Luxembourg will be in accordance with the usual rules and operating procedures of the relevant clearing systems.

Denomination: The Capital Securities will be issued in denominations of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof.

Status of the Capital Securities: Each Capital Security will rank *pari passu* without preference or priority, with all other Capital Securities.

Subordination of the Capital Securities: The payment obligations of the Issuer under the Capital Securities (the "**Obligations**") will: (i) constitute Additional Tier 1 Capital of the Issuer; (ii) constitute direct, unsecured, conditional (as described below) and subordinated obligations of the Issuer that rank *pari passu* and without preference or priority amongst themselves; (iii) rank subordinate and junior to all Senior Obligations; (iv) rank *pari passu* with all *Pari Passu* Obligations; and (v) rank in priority only to all Junior Obligations.

Notwithstanding any other provision in the Conditions, to the extent that any of the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of the Issuer has been issued by a court in the United Arab Emirates, all claims of the holders of the Capital Securities under the Capital Securities will be extinguished and the Capital Securities will be cancelled without any further payment to be made by the Issuer under the Capital Securities.

Solvency Conditions: Payments in respect of the Obligations by the Issuer are conditional upon the following conditions (together, the "**Solvency Conditions**"):

(i) the Issuer being Solvent at all times from (and including) the first day of the relevant Interest Period (or the Issue Date in the case of the first Interest Period) to (and including) the time of payment of the relevant Obligations;

(ii) the Issuer being capable of making payment of the relevant Obligations and any other payment required to be made on the relevant date to a creditor in respect of all Senior Obligations and all *Pari Passu* Obligations and still be Solvent immediately thereafter; and

(iii) the total share capital (including, without limitation, retained earnings) of the Issuer being greater than zero at all times from (and including) the first day of the relevant Interest Period (or the Issue Date in the case of the first Interest Period) to (and including) the time of payment of the relevant Obligations.

Redemption and Variation:

The Capital Securities are perpetual securities in respect of which there is no fixed or final redemption date. The Capital Securities may be redeemed in whole but not in part, or the terms thereof may be varied by the Issuer only in accordance with the provisions of Condition 9 (*Redemption and Variation*).

Pursuant to Condition 9.1(b) (*Redemption and Variation – Issuer's Call Option*), the Issuer may, on any Call Date, redeem all, but not some only, of the Capital Securities at the Early Redemption Amount.

In addition (on any date on or after the Issue Date, whether or not an Interest Payment Date), upon the occurrence of a Tax Event or a Capital Event, all but not some only, of the Capital Securities may be redeemed or the terms of the Capital Securities may be varied, in each case in accordance with Conditions 9.1(c) (*Redemption and Variation – Redemption or Variation due to Taxation*) and 9.1(d) (*Redemption and Variation – Redemption or Variation for Capital Event*).

Any redemption of the Capital Securities is subject to the conditions described in Condition 9.1 (*Redemption and Variation – No Fixed Redemption Date and Conditions for Redemption and Variation*).

Write-Down at the Point of Non-Viability:

If a Non-Viability Event occurs, a Write-down will take place in accordance with Condition 10.2 (*Write-Down at the Point of Non-Viability – Non-Viability Notice*).

"**Write-down**" means:

(i) the holders' rights under the Capital Securities shall automatically be deemed to be irrevocably, unconditionally and permanently written-down in a proportion corresponding to the relevant Write-down Amount;

(ii) in the case of the Write-down Amount corresponding to the full Prevailing Principal Amount of the Capital Securities then outstanding, the Capital Securities shall be cancelled; and

(iii) all rights of any holder for payment or any amounts under or in respect of the Capital Securities, in a proportion corresponding to the relevant Write-down Amount (and any corresponding Interest Payment Amounts), shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date.

Purchase:

Subject to the Issuer (to the extent then required by the Regulator or the Capital Regulations): (i) obtaining the prior written consent of the Regulator; (ii) being in compliance with the Applicable Regulatory Capital Requirements immediately following such purchase; and (iii) being Solvent at the time of purchase, the Issuer or any of its subsidiaries may purchase the Capital Securities in the open market or otherwise at such price(s) and upon such other conditions as may be agreed upon between the Issuer or the relevant subsidiary (as the case may be) and the relevant holders of Capital Securities. Upon any such purchase, the Issuer may (but shall not be obliged to) deliver such Capital Securities for cancellation.

Enforcement Events:	Upon the occurrence of an Enforcement Event, any holder of the Capital Securities may give written notice to the Issuer at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, that such Capital Security is due and payable, whereupon the same shall, subject to Condition 10 (*Write-Down at the Point of Non-Viability*) and Condition 11.4 (*Enforcement Events – Restrictions*), become forthwith due and payable at its Early Redemption Amount, without presentation, demand, protest or other notice of any kind.
Withholding Tax:	All payments in respect of the Capital Securities will be made free and clear of, without withholding or deduction for, or on account of, withholding taxes imposed by the relevant Tax Jurisdiction, subject as provided in Condition 12 (*Taxation*). In the event that any such deduction is made, the Issuer will, in respect of interest (but not in respect of principal), save in certain limited circumstances provided in Condition 12 (*Taxation*), be required to pay additional amounts to cover the amounts so deducted.
Ratings:	The Issuer has been assigned long-term credit ratings of A (stable outlook) by Fitch, Baa1 (stable outlook) by Moody's and A- (stable outlook) by S&P. The Issuer has been assigned short-term credit ratings of F1, P-2 and A-2 by Fitch, Moody's and S&P, respectively. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.
Listing and Admission to Trading:	Application has been made for the Capital Securities to be: (i) admitted to listing on the Luxembourg Official List; and (ii) admitted to trading on the Luxembourg Regulated Market.
Governing Law and Dispute Resolution:	The Capital Securities and any non-contractual obligations arising out of or in connection with the Capital Securities will be governed by, and shall be construed in accordance with, English law. The Agency Agreement, the Deed of Covenant and any non-contractual obligations arising out of, relating to or having any connection with the Agency Agreement and the Deed of Covenant will be governed by, and shall be construed in accordance with, English law. In respect of any dispute, claim, difference or controversy under the Capital Securities, the Agency Agreement or the Deed of Covenant, the Issuer has consented to arbitration in accordance with the LCIA Arbitration Rules unless any holder of Capital Securities (in the case of the Capital Securities or the Deed of Covenant) or Agent (in the case of the Agency Agreement) elects to have the dispute, claim, difference or controversy resolved by a court, in which case the English courts will have exclusive jurisdiction

to settle such dispute (or such other court of competent jurisdiction as such party may elect).

Selling Restrictions: There are restrictions on the offer, sale and transfer of the Capital Securities in the United States (Regulation S Category 2), the UK, the EEA, the Kingdom of Bahrain, the State of Qatar (including the Qatar International Financial Centre), the Kingdom of Saudi Arabia, the Dubai International Financial Centre, the UAE (excluding the Dubai International Financial Centre), Hong Kong, Japan, Singapore and Switzerland and such other restrictions as may be required in connection with the offering and sale of the Capital Securities (see "*Subscription and Sale*").

TERMS AND CONDITIONS OF THE CAPITAL SECURITIES

The following are the Terms and Conditions of the Capital Securities which will be incorporated by reference into the Global Certificate (as defined below) and endorsed on each Individual Certificate (if issued) in respect of the Capital Securities:

Each of the U.S.$300,000,000 Perpetual Additional Tier 1 Capital Securities (the "**Capital Securities**") is issued by Mashreqbank psc in its capacity as issuer (the "**Issuer**") pursuant to the Deed of Covenant and the Agency Agreement (each as defined below).

Payments relating to the Capital Securities will be made pursuant to an agency agreement dated the Issue Date (as amended or supplemented from time to time, the "**Agency Agreement**") made between the Issuer, The Bank of New York Mellon, London Branch as fiscal agent (in such capacity, the "**Fiscal Agent**" and together with any further or other paying agents appointed from time to time in respect of the Capital Securities, the "**Paying Agents**"), The Bank of New York Mellon SA/NV, Dublin Branch as registrar (in such capacity, the "**Registrar**") and as transfer agent (in such capacity, the "**Transfer Agent**" and, together with the Registrar and any further or other transfer agents appointed from time to time in respect of the Capital Securities, the "**Transfer Agents**") and The Bank of New York Mellon, London Branch as calculation agent (the "**Calculation Agent**", which expression includes any other calculation agent appointed from time to time in respect of the Capital Securities). The Paying Agents, the Calculation Agent and the Transfer Agents are together referred to in these terms and conditions (the "**Conditions**") as the "**Agents**". References to the Agents or any of them shall include their successors. The Capital Securities are constituted by a deed of covenant dated the Issue Date (as amended or supplemented from time to time, the "**Deed of Covenant**") entered into by the Issuer.

Any reference to "**holders**" in relation to any Capital Securities shall mean the persons in whose name the Capital Securities are registered and shall, in relation to any Capital Securities represented by a Global Certificate, be construed as provided below.

Copies of the Agency Agreement and the Deed of Covenant are obtainable during normal business hours at the specified offices of the Agents. The holders of the Capital Securities are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement and the Deed of Covenant. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement and the Deed of Covenant.

1. INTERPRETATION

Words and expressions defined in the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated and provided that, in the event of any inconsistency between any such document and these Conditions, these Conditions will prevail. In addition, in these Conditions, the following expressions have the following meanings:

"**Additional Amounts**" has the meaning given to it in Condition 12 (*Taxation*);

"**Additional Tier 1 Capital**" means capital qualifying as, and approved by the Regulator as, additional tier 1 capital in accordance with the Capital Regulations;

"**Applicable Regulatory Capital Requirements**" means any requirements contained in the Capital Regulations for the maintenance of capital from time to time applicable to the Issuer, including transitional rules and waivers granted in respect of the foregoing;

"**Assets**" means the consolidated gross assets of the Issuer as shown in the latest audited or (as the case may be) auditor reviewed consolidated balance sheet of the Issuer, but adjusted for subsequent events in such manner as the Directors, the auditors of the Issuer or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of the Issuer) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

"**Authorised Denomination**" has the meaning given to it in Condition 2.1 (*Form, Denomination and Title – Form and Denomination*);

"**Authorised Signatory**" means any person who is duly authorised by the Issuer to sign documents on its behalf and whose specimen signature has been provided to the Fiscal Agent;

"**Basel III Documents**" means the Basel Committee on Banking Supervision document "*A global regulatory framework for more resilient banks and banking systems*" released by the Basel Committee on Banking Supervision on 16 December 2010 and revised in June 2011 and the Annex contained in its document "*Basel Committee issues final elements of the reforms to raise the quality of regulatory capital*" on 13 January 2011;

"**Business Day**" means a day, other than a Saturday, Sunday or public holiday, on which registered banks settle payments and are open for general business (including dealings in foreign exchange and foreign currency deposits) in Dubai, London and New York City;

"**Call Date**" means the First Call Date and any Interest Payment Date following the First Call Date;

"**Capital Event**" is deemed to have occurred if the Issuer is notified in writing by the Regulator to the effect that the outstanding principal amount (or the amount that qualifies as regulatory capital, if some amount of the Capital Securities is held by the Issuer or whose purchase is funded by the Issuer) of the Capital Securities would cease to be eligible to qualify, in whole or in part, for inclusion in the consolidated Additional Tier 1 Capital of the Issuer (save where such non-qualification is only as a result of any applicable limitation on the amount of such capital), and provided that the Issuer satisfies the Regulator that such non-qualification was not reasonably foreseeable at the time of issuance of the Capital Securities;

"**Capital Event Redemption Amount**" in relation to a Capital Security means: (a) in the case of a redemption date which occurs prior to the First Call Date, 101 per cent. of its Prevailing Principal Amount together with any Outstanding Payments; and (b) in the case of a redemption date which occurs on or after the First Call Date, 100 per cent. of its Prevailing Principal Amount together with any Outstanding Payments;

"**Capital Regulations**" means, at any time, the regulations, requirements, standards, guidelines and policies relating to the maintenance of capital and/or capital adequacy then in effect in the United Arab Emirates, including those of the Regulator;

"**Central Bank**" means the Central Bank of the United Arab Emirates or any successor thereto;

"**Clearstream, Luxembourg**" has the meaning given to it in Condition 2.1 (*Form, Denomination and Title – Form and Denomination*);

"**Code**" has the meaning given to it in Condition 7.3 (*Payments – Payments Subject to Laws*);

"**Common Equity Tier 1 Capital**" means capital qualifying as, and approved by the Regulator as common equity tier 1 capital in accordance with the Capital Regulations;

"**Day-count Fraction**" means the actual number of days in the relevant period divided by 360 (the number of days to be calculated on the basis of a year of 360 days with 12 30-day months and, in the case of an incomplete month, the number of days elapsed of the Interest Period in which the relevant period falls (including the first such day but excluding the last));

"**Designated Account**" has the meaning given to it in Condition 7.1 (*Payments – Payments in respect of Individual Certificates*);

"**Designated Bank**" has the meaning given to it in Condition 7.1 (*Payments – Payments in respect of Individual Certificates*);

"**Directors**" means the executive and non-executive directors of the Issuer who make up its board of directors;

"**Dispute**" has the meaning given to it in Condition 18.2 (*Governing Law and Dispute Resolution – Arbitration*);

"**Distributable Items**" means the amount of the Issuer's consolidated retained earnings and reserves, including general reserves, special reserves and statutory reserves (to the extent not restricted from distribution by applicable law) after the transfer of any amounts to non-distributable reserves, all as set out in the most recent audited or (as the case may be) auditor reviewed consolidated financial statements of the Issuer or any equivalent or successor term from time to time as prescribed by the Capital Regulations, including the applicable criteria for Tier 1 Capital instruments that do not constitute Common Equity Tier 1 Capital;

"**Dividend Stopper Date**" has the meaning given to it in Condition 6.3 (*Interest Cancellation – Dividend and Redemption Restrictions*);

"**Early Redemption Amount**" in relation to a Capital Security means 100 per cent. of its Prevailing Principal Amount together with any Outstanding Payments;

"**Enforcement Event**" means:

(a) ***Non-payment***: the Issuer fails to pay an amount in the nature of principal or interest due and payable by it pursuant to the Conditions and the failure continues for a period of seven days in the case of principal and 14 days in the case of interest (save in each case where such failure occurs solely as a result of the occurrence of a Non-Payment Event); or

(b) ***Insolvency***: a final determination is made by a court or other official body that the Issuer is insolvent or bankrupt or unable to pay its debts as they fall due; or

(c) ***Winding-up***: an administrator is appointed, an order is made by a court of competent jurisdiction or an effective resolution passed for the winding-up or dissolution or administration of the Issuer or the Issuer shall apply or petition for a winding-up or administration order in respect of itself or cease, or through an official action of its board of directors threaten to cease, to carry on all or substantially all of its business or operations, in each case except: (i) for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by an Extraordinary Resolution of the holders of the Capital Securities; or (ii) for any step or procedure which is part of a solvent reconstruction or amalgamation approved by any court of competent jurisdiction or other competent authority; or

(d) ***Analogous Event***: any event occurs which under the laws of the United Arab Emirates has an analogous effect to any of the events referred to in paragraph (b) or paragraph (c) above;

"**Euroclear**" has the meaning given to it in Condition 2.1 (*Form, Denomination and Title– Form and Denomination*);

"**Exchange Event**" has the meaning given to it in Condition 3.4 (*Transfers of Capital Securities and Exchange for Individual Certificates – Exchange for Individual Certificates*);

"**Extraordinary Resolution**" has the meaning given to it in the Agency Agreement;

"**First Call Date**" means 7 July 2027;

"**First Interest Payment Date**" means 7 January 2023;

"**Global Certificate**" means the global registered certificate;

"**Individual Certificate**" means a registered certificate in definitive form;

"**Initial Interest Rate**" has the meaning given to it in Condition 5.1 (*Interest – Initial Interest Rate and Interest Payment Dates*);

"**Initial Period**" means the period (from and including) the Issue Date to (but excluding) the First Call Date;

"**Interest Payment Amount**" means, subject to Condition 6 (*Interest Cancellation*) and Condition 7 (*Payments*), the interest payable on each Interest Payment Date;

"**Interest Payment Date**" means each of 7 January and 7 July in every year, commencing on the First Interest Payment Date;

"**Interest Period**" means, in the case of the first Interest Period, the period from (and including) the Issue Date to (but excluding) the First Interest Payment Date and, subsequently, the period from (and including) an Interest Payment Date to (but excluding) the succeeding Interest Payment Date;

"**Interest Rate**" means, in respect of the Initial Period, the Initial Interest Rate, and, in respect of each Reset Period thereafter, the rate calculated in accordance with the provisions of Condition 5.2 (*Interest – Interest Rate following the Initial Period*);

"**Issue Date**" means 7 July 2022;

"**Junior Obligations**" means all claims of the holders of Ordinary Shares, all payment obligations of the Issuer in respect of its Other Common Equity Tier 1 Instruments and any other payment obligations that rank or are expressed to rank junior to the Capital Securities;

"**H.15**" means the statistical release designated as such, or any successor or replacement publication, published by the Board of Governors of the United States Federal Reserve System and "**most recent H.15**" means the H.15 published closest in time but prior to the applicable Interest Rate determination date. The H.15 may be currently obtained at the following website: https://www.federalreserve.gov/releases/h15/;

"**LCIA**" means the London Court of International Arbitration;

"**Liabilities**" means the consolidated gross liabilities of the Issuer as shown in the latest audited or (as the case may be) auditor reviewed consolidated balance sheet of the Issuer, but adjusted for contingent liabilities and for subsequent events in such manner as the Directors, the auditors of the Issuer or (if a bankruptcy trustee (or any equivalent insolvency practitioner) has been appointed in respect of the Issuer) a bankruptcy trustee (or such equivalent insolvency practitioner) may determine;

"**Margin**" has the meaning given to it in Condition 5.1 (*Interest – Initial Interest Rate and Interest Payment Dates*);

"**Non-Payment Event**" has the meaning given to it in Condition 6.1 (*Interest Cancellation – Non-Payment Event*);

"**Non-Viability Event**" means that the Regulator has notified the Issuer in writing that it has determined that the Issuer has, or will, become Non-Viable without:

(a) a Write-down; or

(b) a public injection of capital (or equivalent support);

"**Non-Viability Event Write-down Date**" shall be the date on which a Write-down will take place as specified in a relevant Non-Viability Notice, which date shall be as determined by the Regulator;

"**Non-Viability Notice**" has the meaning given to it in Condition 10.2 (*Write-Down at the Point of Non-Viability – Non-Viability Notice*);

"**Non-Viable**" means: (a) insolvent, bankrupt, unable to pay a material part of its obligations as they fall due or unable to carry on its business; or (b) any other event or circumstance occurs, which is specified as constituting non-viability by the Regulator or in the Capital Regulations;

"**Obligations**" has the meaning given to it in Condition 4.2 (*Status and Subordination– Subordination of the Capital Securities*);

"**Ordinary Shares**" means ordinary shares of the Issuer;

"**Other Common Equity Tier 1 Instruments**" means securities issued by the Issuer that qualify as Common Equity Tier 1 Capital of the Issuer other than Ordinary Shares;

"**Outstanding Payments**" means, in relation to any amounts payable on redemption of the Capital Securities, an amount representing any accrued and unpaid interest for the Interest Period during which redemption occurs to the date of redemption;

"***Pari Passu* Obligations**" means the Issuer's payment obligations (as issuer or guarantor, as applicable) under all subordinated payment obligations of the Issuer which rank, or are expressed to rank, *pari passu* with the Obligations;

"**Payment Day**" has the meaning given to it in Condition 7.4 (*Payments – Payment Day*);

"**Prevailing Principal Amount**" means, in respect of a Capital Security, the initial principal amount of such Capital Security as reduced by any Write-down of such Capital Security (on one or more occasions) pursuant to Condition 10 (*Write-Down at the Point of Non-Viability*);

"**Proceedings**" has the meaning given to it in Condition 18.4 (*Governing Law and Dispute Resolution – Effect of Exercise of Option to Litigate*);

"**Qualifying Tier 1 Instruments**" means instruments (whether securities, trust certificates, interests in limited partnerships or otherwise) other than Ordinary Shares or Other Common Equity Tier 1 Instruments, issued directly or indirectly by the Issuer that:

(a) will be eligible to constitute (or would, but for any applicable limitation on the amount of such capital, constitute) Additional Tier 1 Capital;

(b) have terms and conditions not materially less favourable to a holder of the Capital Securities than the terms and conditions of the Capital Securities (as reasonably determined by the Issuer (provided that in making this determination the Issuer is not required to take into account the tax treatment of the varied instrument in the hands of all or any holders of the Capital Securities, or any transfer or similar taxes that may apply on the acquisition of the new instrument), provided that a certification to such effect of two Authorised Signatories shall have been delivered to the Fiscal Agent prior to the variation of the terms of the Capital Securities);

(c) continue to be direct or indirect obligations of the Issuer;

(d) rank on a winding up at least *pari passu* with the Obligations;

(e) have the same outstanding principal amount and interest payment dates as the Capital Securities and at least equal interest or distribution rate or rate of return as the Capital Securities;

(f) (where the instruments are varied prior to the First Call Date) have a first call date no earlier than the First Call Date and otherwise have the same optional redemption dates as the Capital Securities (as originally issued); and

(g) if, immediately prior to the variation of the terms of the Capital Securities in accordance with Condition 9.1(c) (*Redemption and Variation – Redemption or Variation due to Taxation*) or Condition 9.1(d) (*Redemption and Variation – Redemption or Variation for Capital Event*) (as applicable): (i) the Capital Securities were listed or admitted to trading on a Regulated Market, have been listed or admitted to trading on a Regulated Market; or (ii) the Capital Securities were listed or admitted to trading on a recognised stock exchange other than a Regulated Market, have been listed or admitted to trading on any internationally recognised stock exchange (including, without limitation, a Regulated Market), in each case, as selected by the Issuer and notified to the holders of the Capital Securities in accordance with Condition 15 (*Notices*),

and which may include such technical changes as necessary to reflect the requirements of Additional Tier 1 Capital under the Capital Regulations then applicable to the Issuer (including, without limitation, such technical changes as may be required in the adoption and implementation of the Basel III Documents);

"**Record Date**" means, in the case of any Interest Payment Amount, the date falling on the 15th day before the relevant Interest Payment Date and, in the case of the payment of a Redemption Amount, the date falling two Payment Days before the date for payment of the relevant Redemption Amount (as the case may be);

"**Redemption Amount**" means the Early Redemption Amount, the Tax Redemption Amount or the Capital Event Redemption Amount (as the case may be);

"**Register**" has the meaning given to it in Condition 2.1 (*Form, Denomination and Title – Form and Denomination*);

"**Regulated Market**" means a regulated market for the purposes of Directive 2014/65/EU (as amended);

"**Regulator**" means the Central Bank or any successor entity having primary bank supervisory authority with respect to the Issuer in the United Arab Emirates;

"**Relevant Date**" has the meaning given to it in Condition 12 (*Taxation*);

"**Relevant Five-Year Reset Rate**" means: (a) the per annum rate (expressed as a decimal) equal to the weekly average yield to maturity for U.S. Treasury securities with a maturity of five years and trading in the public securities markets; or (b) in respect of any Reset Period, if there is no such published U.S. Treasury security with a maturity of five years and trading in the public securities markets, the rate determined on the relevant U.S. Securities Determination Date by interpolation between the most recent weekly average yield to maturity for two series of U.S. Treasury securities trading in the public securities market: (i) one maturing as close as possible to, but earlier than, the immediately following Reset Date; and (ii) the other maturing as close as possible to, but later than, the immediately following Reset Date, in each case as derived from the most recent H.15. In respect of any Reset Period, if the Issuer cannot procure the determination of the Relevant Five-Year Reset Rate on the relevant U.S. Securities Determination Date pursuant to the methods described in (a) and (b) above, then the Relevant Five-Year Reset Rate will be: (1) equal to the rate applicable to the immediately preceding Reset Period; or (2) in the case of the Reset Period commencing on the First Call Date, 3.052 per cent.;

"**Relevant Period**" has the meaning given to it in Condition 5.1 (*Interest – Initial Interest Rate and Interest Payment Dates*);

"**Reset Date**" means the First Call Date and every fifth anniversary thereafter;

"**Reset Period**" means the period from and including the First Call Date to but excluding the following Reset Date, and each successive period thereafter from and including such Reset Date to but excluding the next succeeding Reset Date;

"**Rules**" has the meaning given to it in Condition 18.2 (*Governing Law and Dispute Resolution – Arbitration*);

"**Senior Obligations**" means all unsubordinated payment obligations of the Issuer (including payment obligations to the Issuer's depositors in respect of their due claims) and all subordinated payment obligations (if any) of the Issuer except Junior Obligations or *Pari Passu* Obligations;

"**Solvency Conditions**" has the meaning given to it in Condition 4.3 (*Status and Subordination – Solvency Conditions*);

"**Solvent**" means that: (a) the Issuer is able to pay its debts as they fall due; and (b) the Issuer's Assets exceed its Liabilities;

"**Tax Event**" means on the occasion of the next payment due under the Capital Securities, the Issuer has or will become obliged to pay Additional Amounts (whether or not a Non-Payment Event has occurred), as a result of any change in, or amendment to or interpretation of, the laws, published practice or regulations of a Tax Jurisdiction, or any change in the application or official interpretation of such laws or regulations (each, a "**Tax Law Change**"), which Tax Law Change becomes effective on or after the Issue Date (and such requirement cannot be avoided by the Issuer taking reasonable measures available to it), and provided that the Issuer satisfies the Regulator that such Tax Law Change was not reasonably foreseeable at the time of issuance of the Capital Securities;

"**Tax Jurisdiction**" has the meaning given to it in Condition 12 (*Taxation*);

"**Tax Law Change**" has the meaning given to it in the definition of "Tax Event";

"**Tax Redemption Amount**" in relation to a Capital Security means 100 per cent. of its Prevailing Principal Amount together with any Outstanding Payments;

"**Taxes**" has the meaning given to it in Condition 12 (*Taxation*);

"**Tier 1 Capital**" means capital qualifying as, and approved by the Regulator as, tier 1 capital in accordance with the Capital Regulations;

"**U.S. Government Securities Business Day**" means any day except for a Saturday, Sunday or a day on which the U.S. Securities Industry and Financial Markets Association recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities;

"**U.S. Securities Determination Date**" means the second U.S. Government Securities Business Day before the commencement of the Reset Period for which the rate will apply;

"**Write-down**" means:

(a) the holders' rights under the Capital Securities shall automatically be deemed to be irrevocably, unconditionally and permanently written-down in a proportion corresponding to the relevant Write-down Amount;

(b) in the case of the Write-down Amount corresponding to the full Prevailing Principal Amount of the Capital Securities then outstanding, the Capital Securities shall be cancelled; and

(c) all rights of any holder for payment of any amounts under or in respect of the Capital Securities (including, without limitation, any amounts arising as a result of, or due and payable upon the occurrence of, an Enforcement Event), in a proportion corresponding to the relevant Write-down Amount (and any corresponding Interest Payment Amounts), shall be cancelled and not restored under any circumstances, irrespective of whether such amounts have become due and payable prior to the date of the Non-Viability Notice or the Non-Viability Event Write-down Date,

and all references to "**Written-down**" shall be construed accordingly; and

"**Write-down Amount**" means, in relation to any Non-Viability Event Write-down Date, the amount as determined by the Regulator by which the aggregate Prevailing Principal Amount of the Capital Securities then outstanding is to be Written-down on a *pro rata* basis and shall be calculated per Capital Security by reference to the Prevailing Principal Amount of each Capital Security then outstanding which is to be Written-down.

All references in these Conditions to "**U.S. dollars**", "**U.S.$**" and "**$**" are to the lawful currency of the United States of America.

2. FORM, DENOMINATION AND TITLE

2.1 Form and Denomination

The Capital Securities are issued in registered form in nominal amounts of U.S.$200,000 and integral multiples of U.S.$1,000 in excess thereof (each an "**Authorised Denomination**"). An

Individual Certificate will be issued to each holder of the Capital Securities in respect of its registered holding of Capital Securities. Each Individual Certificate will be numbered serially with an identifying number which will be recorded on the relevant Individual Certificate and in the register of holders of the Capital Securities (the "**Register**").

Upon issue, the Capital Securities will be represented by the Global Certificate which will be deposited with, and registered in the name of a nominee for, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking S.A. ("**Clearstream, Luxembourg**"). Ownership interests in the Global Certificate will be shown on, and transfers thereof will only be effected through, records maintained by Euroclear and Clearstream, Luxembourg (as applicable), and their respective participants. The Conditions are supplemented by certain provisions contained in the Global Certificate.

2.2 **Title**

The holder of any Capital Security will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the certificate issued in respect of it) and no person will be liable for so treating the holder.

For so long as any of the Capital Securities is represented by the Global Certificate held on behalf of Euroclear and/or Clearstream, Luxembourg, each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular nominal amount of such Capital Securities (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg as to the nominal amount of such Capital Securities standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by each of the Issuer and the Agents as the holder of such nominal amount of such Capital Securities for all purposes other than with respect to the payment of principal or interest on such nominal amount of such Capital Securities, for which purpose the registered holder of the Global Certificate shall be treated by each of the Issuer and any Agent as the holder of such nominal amount of such Capital Securities in accordance with and subject to the terms of the Global Certificate.

3. **TRANSFERS OF CAPITAL SECURITIES AND EXCHANGE FOR INDIVIDUAL CERTIFICATES**

3.1 **Transfers of Interests in the Global Certificate**

Capital Securities which are represented by the Global Certificate will be transferable only in accordance with the rules and procedures for the time being of Euroclear and/or Clearstream, Luxembourg (as the case may be).

3.2 **Transfer of Individual Certificates**

Subject to the conditions set forth in the Agency Agreement, Capital Securities represented by Individual Certificates may be transferred in whole or in part (in Authorised Denominations). In order to effect any such transfer: (a) the holder or holders must: (i) surrender the relevant Individual Certificate(s) for registration of the transfer of the Capital Security (or the relevant part of the Capital Security) at the specified office of any Transfer Agent, with the form of transfer thereon duly executed by the holder or holders thereof or his or their attorney or attorneys duly authorised in writing, and (ii) complete and deposit such other certifications as may be required by the relevant Transfer Agent; and (b) the relevant Transfer Agent must, after due and careful enquiry, be satisfied with the documents of title and the identity of the person making the request. Any such transfer will be subject to such reasonable regulations as the Issuer and the Registrar may from time to time prescribe (the initial such regulations being set out in Schedule 5 to the Agency Agreement). Subject as provided above, the relevant Transfer Agent will, within five business days (being for this purpose a day on which commercial banks are open for business (including dealings in foreign currencies) in the cities where the specified office of the Registrar and (if applicable) the relevant Transfer Agent is located) of the request (or such longer period as may be required to comply with any applicable fiscal or other laws or regulations), authenticate and deliver, or procure the authentication and delivery of, at its specified office to the transferee or (at the risk of the transferee) send by uninsured mail, to such address as the transferee may request, a new Individual Certificate of a like aggregate nominal amount to the Capital Security (or the relevant part of the Capital Security) transferred. In the case of the transfer of part only of a Capital Security represented by an Individual Certificate, a new Individual Certificate in respect of the balance of the Capital Security not transferred will be so authenticated and delivered or (at the risk of the transferor) sent to the transferor.

3.3 **Costs of Registration**

Holders of the Capital Securities will not be required to bear the costs and expenses of effecting any registration of transfer as provided above, except for any costs or expenses of delivery other than by regular uninsured mail and except that the Issuer may require the payment of a sum sufficient to cover any stamp duty, tax or other governmental charge that may be imposed in relation to the registration.

3.4 **Exchange for Individual Certificates**

Interests in the Global Certificate will be exchangeable (free of charge), in whole but not in part, for Individual Certificates only upon the occurrence of an Exchange Event (as defined below). The Issuer will give notice to holders of the Capital Securities in accordance with Condition 15 (*Notices*) if an Exchange Event occurs as soon as practicable thereafter. For these purposes, an "**Exchange Event**" shall occur if: (a) an Enforcement Event has occurred; or (b) the Issuer has been notified that both Euroclear and Clearstream, Luxembourg have been closed for business for a continuous period of 14 days (other than by reason of legal holiday) or have announced an intention permanently to cease business or have in fact done so and, in any such case, no successor clearing system satisfactory to the Issuer is available.

In such circumstances, the Global Certificate shall be exchanged in full for Individual Certificates and the Issuer will, at the cost of the Issuer, cause sufficient Individual Certificates to be executed and delivered to the Registrar within 10 days following the request for exchange for completion and dispatch to the holders of the Capital Securities.

3.5 **Closed Periods**

No holder of Capital Securities may require the transfer of a Capital Security to be registered during the period of 15 calendar days ending on the due date for any payment of principal or interest in respect of such Capital Security.

3.6 **Other**

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system as shall have been approved by the Issuer and the Fiscal Agent.

4. **STATUS AND SUBORDINATION**

4.1 **Status of the Capital Securities**

Each Capital Security will rank *pari passu* without preference or priority, with all other Capital Securities.

4.2 **Subordination of the Capital Securities**

(a) The payment obligations of the Issuer under the Capital Securities (the "**Obligations**") will: (i) constitute Additional Tier 1 Capital of the Issuer; (ii) constitute direct, unsecured, conditional (as described in Condition 4.2(b) (*Status and Subordination – Subordination of the Capital Securities*) and Condition 4.3 (*Status and Subordination – Solvency Conditions*)) and subordinated obligations of the Issuer that rank *pari passu* and without preference or priority amongst themselves; (iii) rank subordinate and junior to all Senior Obligations (but not further or otherwise); (iv) rank *pari passu* with all *Pari Passu* Obligations; and (v) rank in priority only to all Junior Obligations.

(b) Notwithstanding any other provisions in these Conditions, to the extent that any of the Solvency Conditions are not satisfied at the relevant time or if a bankruptcy order in respect of the Issuer has been issued by a court in the United Arab Emirates, all claims of the holders of the Capital Securities under the Capital Securities will be extinguished and the Capital Securities will be cancelled without any further payment to be made by the Issuer under the Capital Securities.

(c) Subject to applicable law, each holder of the Capital Securities unconditionally and irrevocably waives any right of set-off, counterclaim, abatement or other similar remedy which it might otherwise have, under the laws of any jurisdiction, in respect of the Obligations. No collateral is or will be given for the Obligations and any collateral that may have been or may in the future be given in connection with other obligations of the Issuer shall not secure the Obligations.

4.3 **Solvency Conditions**

Payments in respect of the Obligations by the Issuer are conditional upon the following conditions (together, the "**Solvency Conditions**"):

(a) the Issuer being Solvent at all times from (and including) the first day of the relevant Interest Period (or the Issue Date in the case of the first Interest Period) to (and including) the time of payment of the relevant Obligations;

(b) the Issuer being capable of making payment of the relevant Obligations and any other payment required to be made on the relevant date to a creditor in respect of all Senior Obligations and all *Pari Passu* Obligations and still be Solvent immediately thereafter; and

(c) the total share capital (including, without limitation, retained earnings) of the Issuer being greater than zero at all times from (and including) the first day of the relevant Interest Period (or the Issue Date in the case of the first Interest Period) to (and including) the time of payment of the relevant Obligations.

4.4 **Other Issues**

So long as any of the Capital Securities remain outstanding, the Issuer will not issue any securities (regardless of name or designation) or create any guarantee of, or provide any contractual support arrangement in respect of, the obligations of any other entity which in each case constitutes (whether on a solo, or a solo consolidated or a consolidated basis) Additional Tier 1 Capital of the Issuer if claims in respect of such securities, guarantee or contractual support arrangement would rank (as regards distributions on a return of assets on a winding-up or in respect of distribution or payment of dividends and/or any other amounts thereunder) senior to the Obligations. This prohibition will not apply if at the same time or prior thereto these Conditions are amended to ensure that: (a) the holders obtain; and/or (b) the Obligations have, in each case, the benefit of such of those rights and entitlements as are contained in or attached to such securities or under such guarantee or contractual support arrangement as are required so as to ensure that claims in respect of the Obligations rank *pari passu* with, and contain substantially equivalent rights of priority as to distributions or payments on, such securities or under such guarantee or contractual support arrangement.

5. **INTEREST**

5.1 **Initial Interest Rate and Interest Payment Dates**

Subject to Condition 6 (*Interest Cancellation*), the Capital Securities shall, during the Initial Period, bear interest at a rate of 8.500 per cent. per annum (the "**Initial Interest Rate**") on the Prevailing Principal Amount of the Capital Securities (being the aggregate of a margin of 5.448 per cent. per annum (the "**Margin**") and the Relevant Five-Year Reset Rate) in accordance with the provisions of this Condition 5. The Interest Payment Amount payable on each Interest Payment Date during the Initial Period shall be U.S.$42.50 per U.S.$1,000 in principal amount of the Capital Securities.

Subject to Condition 6 (*Interest Cancellation*), interest shall be payable on the Capital Securities semi-annually in arrear on each Interest Payment Date, in each case as provided in this Condition 5. Interest is discretionary, will not be cumulative and any interest which is not paid will not accumulate or compound and holders of the Capital Securities will have no right to receive such interest at any time, even if interest is paid in the future.

If interest is required to be calculated in respect of a period of less than a full Interest Period (the "**Relevant Period**"), it shall be calculated as an amount equal to the product of: (a) the applicable Interest Rate; (b) the Prevailing Principal Amount of the relevant Capital Security then outstanding; and (c) the applicable Day-count Fraction for the Relevant Period, rounding the resultant figure to the nearest cent (half a cent being rounded upwards).

5.2 **Interest Rate following the Initial Period**

For the purpose of calculating payments of interest following the Initial Period, the Interest Rate will be reset on each Reset Date on the basis of the aggregate of the Margin and the Relevant Five-Year Reset Rate on the relevant U.S. Securities Determination Date, as determined by the Calculation Agent.

The Calculation Agent will, as soon as practicable upon determination of the Interest Rate which shall apply to the Reset Period commencing on the relevant Reset Date, cause the applicable Interest Rate and the corresponding Interest Payment Amount to be notified to each of the Paying Agents and the holders of the Capital Securities in accordance with Condition 15 (*Notices*) as soon as possible after their determination but in no event later than the second Business Day thereafter.

5.3 **Determinations of Calculation Agent Binding**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions by the Calculation Agent given, expressed, made or obtained for the purposes of this Condition 5 shall (in the absence of manifest error) be binding on the other Agents and the holders of the Capital Securities and (in the absence of manifest error) no liability to the holders of the Capital Securities shall attach to the Calculation Agent in connection with the exercise or non-exercise by it of any of its powers, duties and discretions.

6. **INTEREST CANCELLATION**

6.1 **Non-Payment Event**

Notwithstanding Condition 5.1 (*Interest – Initial Interest Rate and Interest Payment Dates*), subject to Condition 6.2 (*Interest Cancellation – Effect of Non-Payment Event*), if any of the following events occurs (each, a "**Non-Payment Event**"), Interest Payment Amounts shall not be paid on the corresponding Interest Payment Date:

(a) the Interest Payment Amount payable, when aggregated with any distributions or amounts payable by the Issuer on any *Pari Passu* Obligations having the same date in respect of payment of such distributions or amounts as, or otherwise due and payable on, the date for payment of Interest Payment Amounts, exceeds, on the relevant date for payment of such Interest Payment Amount, the Distributable Items;

(b) the Issuer is, on that Interest Payment Date, in breach of the Applicable Regulatory Capital Requirements (including any payment restrictions due to breach of capital buffers imposed on the Issuer by the Regulator, as appropriate) or payment of the relevant Interest Payment Amount would cause it to be in breach thereof;

(c) the Regulator having notified the Issuer that the Interest Payment Amount due on that Interest Payment Date should not be paid for any reason the Regulator may deem necessary;

(d) the Solvency Conditions are not satisfied (or would no longer be satisfied if the relevant Interest Payment Amount was paid); or

(e) the Issuer, in its sole discretion, has elected that Interest Payment Amounts shall not be paid to holders of the Capital Securities on such Interest Payment Date (other than in respect of any amounts due on any date on which the Capital Securities are to be redeemed in full, in respect of which this paragraph (e) does not apply), including, without limitation, if the Issuer incurs a net loss during the relevant Interest Period.

6.2 **Effect of Non-Payment Event**

If a Non-Payment Event occurs, then the Issuer shall give notice to the Fiscal Agent and the holders of the Capital Securities (in accordance with Condition 15 (*Notices*)) (which notice shall be revocable) providing details of the Non-Payment Event as soon as practicable (or, in the case of a Non-Payment Event pursuant to Condition 6.1(e) (*Interest Cancellation – Non-Payment Event*), no later than five Business Days prior to such event). However, any failure to provide such notice will not invalidate the cancellation of the relevant payment of the Interest Payment Amount. In the absence of notice of a Non-Payment Event having been given in accordance with this Condition 6.2, the fact of non-payment of an Interest Payment Amount on the relevant Interest Payment Date shall be evidence of the occurrence of a Non-Payment Event.

Holders of the Capital Securities shall have no claim in respect of any Interest Payment Amount not paid as a result of a Non-Payment Event (whether or not notice of such Non-Payment Event has been given in accordance with this Condition 6.2) and any non-payment of an Interest Payment Amount in such circumstances shall not constitute an Enforcement Event. The Issuer shall not make or shall not have any obligation to make any subsequent payment in respect of any such unpaid Interest Payment Amount.

6.3 **Dividend and Redemption Restrictions**

If any Interest Payment Amount is not paid as a consequence of a Non-Payment Event pursuant to Condition 6.1 (*Interest Cancellation – Non-Payment Event*), then, from the date of such Non-Payment Event (the "**Dividend Stopper Date**"), the Issuer will not, so long as any of the Capital Securities are outstanding:

(a) declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on, Ordinary Shares (other than to the extent that any such distribution, dividend or other payment is declared before such Dividend Stopper Date); or

(b) declare or pay profit or any other distribution on any of its Other Common Equity Tier 1 Instruments or securities ranking, as to the right of payment of dividend, distributions or similar payments, *pari passu* with or junior to the Obligations (excluding securities the terms of which do not at the relevant time enable the Issuer to defer or otherwise not to make such payment), only to the extent such restriction on payment or distribution is permitted under the Capital Regulations for Tier 1 Capital applicable from time to time; or

(c) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Ordinary Shares; or

(d) directly or indirectly redeem, purchase, cancel, reduce or otherwise acquire Other Common Equity Tier 1 Instruments or any securities issued by the Issuer ranking, as to the right of repayment of capital, *pari passu* with or junior to the Obligations (excluding securities the terms of which stipulate a mandatory redemption or conversion into equity), only to the extent such restriction on redemption, purchase, cancellation, reduction or acquisition is permitted under the Capital Regulations for Tier 1 Capital applicable from time to time,

in each case unless or until one Interest Payment Amount following the Dividend Stopper Date has been made in full (or an amount equal to the same has been duly set aside or provided for in full for the benefit of the holders of the Capital Securities).

7. PAYMENTS

7.1 Payments in respect of Individual Certificates

Subject as provided below, payments will be made by credit or transfer to an account maintained by the payee with, or, at the option of the payee, by a cheque drawn on, a bank in New York City.

Payments of principal in respect of each Capital Security will be made against presentation and surrender of the Individual Certificate at the specified office of the Registrar or any of the Paying Agents. Such payments will be made by transfer to the Designated Account (as defined below) of the holder (or the first named of joint holders) of the Capital Security appearing in the Register at the close of business in the place of the Registrar's specified office on the Record Date. Notwithstanding the previous sentence, if: (a) a holder does not have a Designated Account; or (b) the principal amount of the Capital Securities held by a holder is less than U.S.$200,000, payment will instead be made by a cheque in U.S. dollars drawn on a Designated Bank (as defined below). For these purposes, "**Designated Account**" means the account maintained by a holder with a Designated Bank and identified as such in the Register and "**Designated Bank**" means a bank in New York City.

Payments of interest in respect of each Capital Security will be made by a cheque in U.S. dollars drawn on a Designated Bank and mailed by uninsured mail on the business day in the city where the specified office of the Registrar is located immediately preceding the relevant due date to the holder (or the first named of joint holders) of the Capital Security appearing in the Register at the close of business in the place of the Registrar's specified office on the Record Date at his address shown in the Register on the Record Date and at his risk. Upon application of the holder to the specified office of the Registrar not less than three business days in the city where the specified office of the Registrar is located before the due date for any payment of interest in respect of a Capital Security, the payment may be made by transfer on the due date in the manner provided in the preceding paragraph. Any such application for transfer shall be deemed to relate to all future payments of interest (other than interest due on redemption) in respect of the Capital Securities which become payable to the holder who has made the initial application until such time as the Registrar is notified in writing to the contrary by such holder. Payments of interest due in respect of each Capital Security on redemption will be made in the same manner as payment of the principal amount of such Capital Security.

Holders of Capital Securities will not be entitled to any interest or other payment for any delay in receiving any amount due in respect of any Capital Security as a result of a cheque posted in accordance with this Condition 7.1 arriving after the due date for payment or being lost in the post. No commissions or expenses shall be charged to such holders by the Registrar in respect of any payments of principal or interest in respect of the Capital Securities.

7.2 Payments in respect of the Global Certificate

The holder of the Global Certificate shall be the only person entitled to receive payments in respect of Capital Securities represented by the Global Certificate and the Issuer will be discharged by payment to, or to the order of, the holder of such Global Certificate in respect of each amount so paid. Each of the persons shown in the records of Euroclear or Clearstream, Luxembourg as the beneficial holder of a particular nominal amount of Capital Securities represented by such Global Certificate must look solely to Euroclear or Clearstream, Luxembourg (as the case may be), for his share of each payment so made by the Issuer, or to the order of, the holder of such Global Certificate. Each payment made in respect of the Global Certificate will be made to the person shown as the holder in the Register at the close of business (in the relevant clearing system) on the Clearing System Business Day before the due date for such payment, where "**Clearing System Business Day**" means a day on which each clearing system for which the Global Certificate is being held is open for business.

7.3 Payments Subject to Laws

All payments are subject in all cases to: (a) any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 12 (*Taxation*); and (b) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the

U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law in any jurisdiction implementing an intergovernmental approach thereto. No commission or expenses shall be charged to the holders of the Capital Securities in respect of such payments.

7.4 **Payment Day**

If the date for payment of any amount in respect of the Capital Securities is not a Payment Day, the holder thereof shall not be entitled to payment until the next following Payment Day in the relevant place and shall not be entitled to further interest or other payment in respect of such delay. For these purposes, "**Payment Day**" means any day which (subject to Condition 13 (*Prescription*)) is a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in New York City and London.

7.5 **Interpretation of principal and interest**

Any reference in the Conditions to principal in respect of the Capital Securities shall be deemed to include, as applicable:

(a) the Early Redemption Amount of the Capital Securities;

(b) the Capital Event Redemption Amount of the Capital Securities; and

(c) the Tax Redemption Amount of the Capital Securities.

Any reference in the Conditions to interest or Interest Payment Amounts in respect of the Capital Securities shall be deemed to include, as applicable, any Additional Amounts which may be payable with respect to interest under Condition 12 (*Taxation*).

8. **AGENTS**

The names of the initial Agents are set out above and their initial specified offices are set out in the Agency Agreement.

The Issuer is entitled to vary or terminate the appointment of any Agent and/or appoint additional or other Agents and/or approve any change in the specified office through which any Agent acts, provided that:

(a) there will at all times be a Fiscal Agent and a Registrar;

(b) with effect from the U.S. Securities Determination Date prior to the First Call Date, and so long as any Capital Securities remain outstanding thereafter, there will be a Calculation Agent;

(c) so long as the Capital Securities are listed on any stock exchange or admitted to listing, trading and/or quotation by any other relevant authority, there will at all times be a Paying Agent and a Transfer Agent with a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or other relevant authority; and

(d) there will at all times be a Paying Agent and a Transfer Agent with a specified office in Europe.

Subject to the Agency Agreement, any variation, termination, appointment or change shall only take effect (other than in the case of insolvency, when it shall be of immediate effect) after not less than 30 nor more than 45 days' prior notice thereof shall have been given to the holders of the Capital Securities in accordance with Condition 15 (*Notices*).

In acting under the Agency Agreement, the Agents act solely as agents of the Issuer and do not assume any obligation to, or relationship of agency or trust with, any holders of the Capital Securities. The Agency Agreement contains provisions permitting any entity into which any Agent is merged or converted or with which it is consolidated or to which it transfers all or substantially all of its assets to become the successor paying agent.

9. REDEMPTION AND VARIATION

9.1 Redemption and Variation

(a) ***No Fixed Redemption Date and Conditions for Redemption and Variation***

The Capital Securities are perpetual securities in respect of which there is no fixed redemption date and the Issuer shall (subject to the provisions of Condition 4 (*Status and Subordination*), Condition 10 (*Write-Down at the Point of Non-Viability*) and Condition 11 (*Enforcement Events*) and without prejudice to the provisions of Condition 13 (*Prescription*)) only have the right to redeem the Capital Securities or vary the terms thereof upon satisfaction of and in accordance with the following provisions of this Condition 9.

The redemption of the Capital Securities or variation of the Conditions, in each case pursuant to this Condition 9, is subject to the following conditions (to the extent then required by the Regulator or the Capital Regulations):

(i) the prior consent of the Regulator;

(ii) the requirement that both at the time when the relevant notice of redemption or variation is given and immediately following such redemption or variation (as applicable), the Issuer is or will be (as the case may be) in compliance with the Applicable Regulatory Capital Requirements; and

(iii) the Solvency Conditions being satisfied.

(b) ***Issuer's Call Option***

Subject to Condition 9.1(a) (*Redemption and Variation – No Fixed Redemption Date and Conditions for Redemption and Variation*), the Issuer may (acting in its sole discretion), by giving not less than 10 nor more than 15 days' prior written notice to the Fiscal Agent and the Registrar, and to the holders of the Capital Securities in accordance with Condition 15 (*Notices*) (which notice shall specify the date fixed for redemption), redeem all, but not some only, of the Capital Securities at the Early Redemption Amount (provided such notice has not been revoked by the Issuer giving notice of such revocation to the Fiscal Agent and the Registrar, and to the holders of the Capital Securities in accordance with Condition 15 (*Notices*) (prior to the redemption date specified in the initial notice)).

Redemption of the Capital Securities pursuant to this Condition 9.1(b) may only occur on a Call Date.

(c) ***Redemption or Variation due to Taxation***

(i) Subject to Condition 9.1(a) (*Redemption and Variation –No Fixed Redemption Date and Conditions for Redemption and Variation*), upon the occurrence of a Tax Event, the Issuer may (acting in its sole discretion), by giving not less than 10 nor more than 15 days' prior written notice to the Fiscal Agent and the Registrar, and to the holders of the Capital Securities in accordance with Condition 15 (*Notices*): (1) redeem all, but not some only, of the Capital Securities at the Tax Redemption Amount; or (2) vary the terms of the Capital Securities provided that they become or, as appropriate, remain, Qualifying Tier 1 Instruments and so that the relevant withholding or deduction otherwise arising from the relevant Tax Law Change is no longer required, in each case without any requirement for consent or approval of the holders of the Capital Securities.

(ii) Redemption of the Capital Securities, or variation of the Conditions, in each case pursuant to this Condition 9.1(c) may occur on any date after the Issue Date (whether or not such date is an Interest Payment Date).

(iii) At the same time as the publication of any notice of redemption or variation (as the case may be) pursuant to this Condition 9.1(c), the Issuer shall give to the Fiscal Agent: (1) a certificate signed by two Authorised Signatories of the Issuer stating that: (A) the relevant conditions set out in Condition 9.1(a) (*Redemption and Variation –No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (B) a Tax Event has occurred; and (C) in the case of a variation only, the varied Capital Securities will be Qualifying Tier 1 Instruments and that the Regulator has confirmed that the varied Capital Securities will satisfy limb (a) of the definition of Qualifying Tier 1 Instruments; and (2) an opinion of independent legal advisors of recognised standing to the effect that the Issuer has or will become obliged to pay Additional Amounts as a result of the Tax Event. Such certificate delivered in accordance with this Condition shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out in (1)(A) to (C) above. Upon expiry of such notice, the Issuer shall redeem or vary the terms of the Capital Securities (as the case may be) (provided such notice has not been revoked by the Issuer giving notice of such revocation to the Fiscal Agent and the Registrar, and to the holders of the Capital Securities in accordance with Condition 15 (*Notices*) (prior to the redemption date specified in the initial notice)).

(d) ***Redemption or Variation for Capital Event***

(i) Subject to Condition 9.1(a) (*Redemption and Variation –No Fixed Redemption Date and Conditions for Redemption and Variation*), upon the occurrence of a Capital Event, the Issuer may (acting in its sole discretion), by giving not less than 10 nor more than 15 days' prior written notice to the Fiscal Agent and the Registrar, and to the holders of the Capital Securities in accordance with Condition 15 (*Notices*): (1) redeem all, but not some only, of the Capital Securities at the Capital Event Redemption Amount; or (2) solely for the purpose of ensuring compliance with Applicable Regulatory Capital Requirements, vary the terms of the Capital Securities provided that they become or, as appropriate, remain, Qualifying Tier 1 Instruments, in each case without any requirement for consent or approval of the holders of the Capital Securities.

(ii) Redemption of the Capital Securities, or variation of the Conditions, pursuant to this Condition 9.1(d) may occur on any date after the Issue Date (whether or not an Interest Payment Date).

(iii) At the same time as the delivery of any notice of redemption or variation (as the case may be) pursuant to this Condition 9.1(d), the Issuer shall give to the Fiscal Agent a certificate signed by two Authorised Signatories stating that: (1) the relevant conditions set out in Condition 9.1(a) (*Redemption and Variation –No Fixed Redemption Date and Conditions for Redemption and Variation*) have been satisfied; (2) a Capital Event has occurred; and (3) in the case of a variation only, the varied Capital Securities will be Qualifying Tier 1 Instruments and that the Regulator has confirmed that the varied Capital Securities will satisfy limb (a) of the definition of Qualifying Tier 1 Instruments. Such certificate shall be conclusive and binding evidence of the satisfaction of the conditions precedent set out above. Upon expiry of such notice, the Issuer shall redeem or vary the terms of the Capital Securities (as the case may be) (provided such notice has not been revoked by the Issuer giving notice of such revocation to the Fiscal Agent and the Registrar, and to the holders of the Capital Securities in accordance with Condition 15 (*Notices*) (prior to the redemption date specified in the initial notice)).

(e) ***Taxes upon Variation***

In the event of a variation in accordance with Condition 9.1(c) (*Redemption and Variation – Redemption or Variation due to Taxation*) or Condition 9.1(d) (*Redemption and Variation – Redemption or Variation for Capital Event*), the Issuer will not be obliged to pay and will not pay any liability of any holder of the Capital Securities to corporation tax, corporate income tax or tax on profits or gains or any similar tax arising in respect of the variation of the terms of the Capital Securities provided that (in the case of a Tax Event) or so that (in the case of a Capital Event) they become or, as appropriate, remain, Qualifying Tier 1 Instruments, including in respect of any stamp duty or similar other taxes arising on any subsequent transfer, disposal or deemed disposal of the Qualifying Tier 1 Instruments by such holder of the Capital Securities.

(f) ***No redemption in the case of a Non-Viability Notice being delivered***

The Issuer may not give a notice of redemption under this Condition 9.1 if a Non-Viability Notice has been given in respect of the Capital Securities. If a Non-Viability Notice is given after a notice of redemption has been given by the Issuer under this Condition 9.1 but before the relevant date fixed for redemption, such notice of redemption shall be deemed not to have been given and the Capital Securities shall not be redeemed.

9.2 **Purchase**

Subject to the Issuer (to the extent then required by the Regulator or the Capital Regulations): (a) obtaining the prior written consent of the Regulator; (b) being in compliance with the Applicable Regulatory Capital Requirements immediately following such purchase; and (c) being Solvent at the time of purchase, the Issuer or any of its subsidiaries may purchase the Capital Securities in the open market or otherwise at such price(s) and upon such other conditions as may be agreed upon between the Issuer or the relevant subsidiary (as the case may be) and the relevant holders of Capital Securities. Upon any such purchase, the Issuer may (but shall not be obliged to) deliver such Capital Securities for cancellation.

9.3 **Cancellation**

All Capital Securities which are redeemed will forthwith be cancelled. All Capital Securities so cancelled and any Capital Securities purchased and cancelled pursuant to Condition 9.2 (*Redemption and Variation –Purchase*) cannot be reissued or resold.

10. **Write-Down at the Point of Non-Viability**

10.1 **Non-Viability Event**

If a Non-Viability Event occurs, a Write-down will take place in accordance with Condition 10.2 (*Write-Down at the Point of Non-Viability –Non-Viability Notice*).

10.2 **Non-Viability Notice**

On the third Business Day following the date on which a Non-Viability Event occurs (or on such earlier date as determined by the Regulator), the Issuer will notify the Fiscal Agent, the Registrar and the holders of the Capital Securities thereof (in accordance with Condition 15 (*Notices*)) (such notice, a "**Non-Viability Notice**"). A Write-down will occur on the Non-Viability Event Write-down Date. In the case of a Write-down resulting in the reduction of the Prevailing Principal Amount of each Capital Security then outstanding to nil, with effect from the Non-Viability Event Write-down Date, the Capital Securities will be automatically cancelled and the holders shall not be entitled to any claim for any amount in connection with the Capital Securities.

11. **ENFORCEMENT EVENTS**

11.1 **Enforcement Event**

Upon the occurrence of an Enforcement Event, any holder of the Capital Securities may give written notice to the Issuer at the specified office of the Fiscal Agent, effective upon the date of receipt thereof by the Fiscal Agent, that such Capital Security is due and payable, whereupon the same shall, subject to Condition 10 (*Write-Down at the Point of Non-Viability*) and Condition 11.4 (*Enforcement Events – Restrictions*) become forthwith due and payable at its Early Redemption Amount, without presentation, demand, protest or other notice of any kind.

11.2 **Dissolution Remedies**

To the extent permitted by applicable law and by these Conditions, any holder of the Capital Securities may at its discretion: (a) institute any steps, actions or proceedings for the winding-up of the Issuer; and/or (b) prove in the winding-up of the Issuer; and/or (c) claim in the liquidation of the Issuer; and/or (d) take such other steps, actions or proceedings which, under the laws of the United Arab Emirates, have an analogous effect to the actions referred to in (a) to (c) above (in each case, without prejudice to Condition 4.2 (*Status and Subordination – Subordination of the Capital Securities*)), for such payment referred to in Condition 11.1 (*Enforcement Events – Enforcement Event*), but the institution of any such steps, actions or proceedings shall not have the effect that the Issuer shall be obliged to pay any sum or sums sooner than would otherwise have been payable by it. Subject to Condition 11.3 (*Enforcement Events – Performance Obligations*), no remedy against the Issuer, other than the steps, actions or proceedings to enforce, prove or claim referred to in this Condition 11, and the proving or claiming in any dissolution/winding-up or liquidation of the Issuer, shall be available to the holders of the Capital Securities, whether for the recovering of amounts owing in respect of the Capital Securities or in respect of any breach by the Issuer of any other obligation, condition or provision binding on it under the Capital Securities.

11.3 **Performance Obligations**

Without prejudice to the other provisions of this Condition 11, any holder of the Capital Securities may at its discretion institute such steps, actions or proceedings against the Issuer as it may think fit to enforce any term or condition binding on the Issuer under these Conditions, in each case, other than any payment obligation of the Issuer (including, without limitation, payment of any principal or satisfaction of any payments in respect of the Conditions, including any damages awarded for breach of any obligations). However, in no event shall the Issuer, by virtue of the institution of any such steps, actions or proceedings, be obliged to pay any sum or sums sooner than would otherwise have been payable by it.

11.4 **Restrictions**

All claims by any holder of the Capital Securities against the Issuer (including, without limitation, any claim in relation to any unsatisfied payment obligation of the Issuer under the Capital Securities) shall be subject to, and shall be superseded by: (a) the provisions of Condition 10 (*Write-Down at the Point of Non-Viability*), irrespective of whether the relevant Non-Viability Event occurs prior to or after the event which is the subject matter of the claim; and (b) the provisions of Condition 4 (*Status and Subordination*), irrespective of whether the breach of a Solvency Condition at the relevant time or the issue of a bankruptcy order in respect of the Issuer occurs prior to or after the event which is the subject matter of the claim.

12. **TAXATION**

All payments of principal and interest in respect of the Capital Securities by the Issuer will be made free and clear of, without withholding or deduction for, or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the Tax Jurisdiction ("**Taxes**") unless such withholding or deduction is required by law. In such event, the Issuer will pay such additional amounts in respect of Interest Payment Amounts (but not in respect of principal) as shall be necessary in order that the net amounts received by the holders of the Capital Securities after such withholding or deduction shall equal the respective Interest Payment Amount(s) which would otherwise have been receivable in respect of the Capital Securities (as the case may be), in the absence of such withholding or deduction ("**Additional Amounts**"); except that no such Additional Amounts shall be payable with respect to any Capital Security:

(a) presented for payment (where presentation is required) by or on behalf of a holder who is liable for such taxes, duties, assessments or governmental charges in respect of such Capital Security by reason of his having some connection with the Tax Jurisdiction other than the mere holding of such Capital Security; or

(b) presented for payment (where presentation is required) more than 30 days after the Relevant Date (as defined below) except to the extent that the holder thereof would have been entitled to an Additional Amount on presenting the same for payment on such 30th day assuming that day to have been a Payment Day; or

(c) presented for payment in a Tax Jurisdiction.

As used in these Conditions:

(i) "**Tax Jurisdiction**" means the United Arab Emirates or Dubai or, in each case, any political sub division or any authority thereof or therein having power to tax; and

(ii) the "**Relevant Date**" means the date on which such payment first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the holders of the Capital Securities in accordance with Condition 15 (*Notices*) that, upon further presentation of the Capital Security in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

Notwithstanding any other provision in these Conditions, in no event will the Issuer be required to pay any additional amounts in respect of the Capital Securities for, or on account of, any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the Code or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, or any official interpretations thereof, or any law implementing an intergovernmental approach thereto.

13. PRESCRIPTION

Subject to applicable law, claims for payment in respect of the Capital Securities will become void unless made within a period of 10 years (in the case of principal) and 5 years (in the case of interest) after the Relevant Date therefor.

14. REPLACEMENT OF INDIVIDUAL CERTIFICATES

Should any Individual Certificate be lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws, regulations and stock exchange or other relevant authority regulations, at the specified office of the Registrar upon payment by the claimant of such costs and expenses as may be incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Individual Certificate is subsequently presented for payment, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Individual Certificate) and otherwise as the Issuer and the Registrar may require. Mutilated or defaced Individual Certificates must be surrendered before replacements will be issued.

15. NOTICES

All notices to the holders of the Capital Securities will be valid if mailed to them at their respective addresses in the register of the holders of the Capital Securities maintained by the Registrar. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Capital Securities are for the time being admitted to listing, trading and/or quotation. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

For so long as all the Capital Securities are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear and/or Clearstream, Luxembourg, notices may be given by delivery of the relevant notice to those clearing systems for communication to the holders rather than by mailing as provided for in the paragraph above except that, so long as the Capital Securities are listed on any stock exchange and/or admitted to listing, trading and/or quotation by any other relevant authority, notices shall also be published in accordance with the rules of such stock exchange or other relevant authority on which the Capital Securities are admitted to listing, trading and/or quotation. Any such notice shall be deemed to have been given on the day on which such notice is delivered to the relevant clearing systems.

Notices to be given by any holder of the Capital Securities shall be in writing and given by lodging the same, together (in the case of any Individual Certificate) with the relevant Individual Certificate(s), with the Registrar. Whilst any of the Capital Securities are represented by a Global Certificate, such notice may be given by any holder of a Capital Security to the Registrar through Euroclear and/or Clearstream, Luxembourg (as the case may be), in such manner as the Registrar, and Euroclear and/or Clearstream, Luxembourg (as the case may be) may approve for this purpose.

16. MEETINGS OF HOLDERS OF THE CAPITAL SECURITIES AND MODIFICATION

The Agency Agreement contains provisions for convening meetings of the holders of the Capital Securities to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Capital Securities or any of the provisions of the Agency Agreement or the Deed of Covenant. Such a meeting may be convened by the Issuer and shall be convened by the Issuer if required in writing by holders of the Capital Securities holding not less than 10 per cent. in nominal amount of the Capital Securities for the time being remaining outstanding. The quorum at any such meeting for passing an Extraordinary Resolution is one or more persons holding or representing in aggregate not less than 50 per cent. in nominal amount of the Capital Securities for the time being outstanding, or at any adjourned meeting one or more persons being or representing holders of the Capital Securities whatever the nominal amount of the Capital Securities so held or represented, except that at any meeting the business of which includes the modification of certain provisions of the Capital Securities (as specified in the Agency Agreement, and including (without limitation) modifying any date for payment of interest thereon, reducing or cancelling the amount of principal or the rate of interest payable in respect of the Capital Securities, altering the currency of payment of the Capital Securities or modifying the provisions concerning the quorum required at any meeting of holders of the Capital Securities or the majority required to pass the Extraordinary Resolution), the quorum shall be one or more persons holding or representing not less than two-thirds in nominal amount of the Capital Securities for the time being outstanding, or at any adjourned such meeting one or more persons holding or representing not less than one-third in nominal amount of the Capital Securities for the time being outstanding. An Extraordinary Resolution passed at any meeting of the holders of the Capital Securities shall be binding on all the holders of the Capital Securities, whether or not they are present at the meeting, and whether or not they voted on the resolution.

The Agency Agreement provides that a written resolution signed by or on behalf of all the holders of Capital Securities shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of holders of the Capital Securities duly convened and held. Such a written resolution may be contained in one document or several documents in the same form, each signed by or on behalf of one or more of the holders of the Capital Securities. Such a written resolution will be binding on all holders of the Capital Securities whether or not they participated in such written resolution.

The Fiscal Agent and the Issuer may agree, without the consent of the holders of the Capital Securities, to:

(a) any modification (except as mentioned above) of the Capital Securities, the Agency Agreement or the Deed of Covenant which is not prejudicial to the interests of the holders of the Capital Securities (as determined by the Issuer in its sole opinion); or

(b) any modification of the Capital Securities, the Agency Agreement or the Deed of Covenant which is of a formal, minor or technical nature or is made to correct a manifest or proven error or to comply with mandatory provisions of the law.

In addition, the Fiscal Agent shall be obliged to agree to such modifications of the Capital Securities, the Agency Agreement or the Deed of Covenant as may be required in order to give effect to Condition 9.1(c) (*Redemption and Variation – Redemption or Variation due to Taxation*) or Condition 9.1(d) (*Redemption and Variation – Redemption or Variation for Capital Event*) in connection with any variation of the Capital Securities upon the occurrence of a Tax Event or a Capital Event (as applicable).

Any such modification shall be binding on the holders of the Capital Securities and any such modification shall be notified to the holders of the Capital Securities in accordance with Condition 15 (*Notices*) as soon as practicable thereafter.

17. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

18. GOVERNING LAW AND DISPUTE RESOLUTION

18.1 Governing law

The Agency Agreement, the Deed of Covenant and the Capital Securities, and any non-contractual obligations arising out of or in connection with the Agency Agreement, the Deed of Covenant and the Capital Securities, are governed by, and shall be construed in accordance with, English law.

18.2 Arbitration

Subject to Condition 18.3 (*Governing Law and Dispute Resolution – Option to Litigate*), any dispute, claim, difference or controversy arising out of, relating to or having any connection with the Capital Securities (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute, claim, difference or controversy relating to any non-contractual obligations arising out of or in connection with the Capital Securities) (a "**Dispute**") shall be referred to and finally resolved by arbitration in accordance with the LCIA Arbitration Rules (the "**Rules**"), which Rules (as amended from time to time) are incorporated by reference into this Condition 18.2. For these purposes:

(a) the seat, or legal place of arbitration will be London, England;

(b) the language of the arbitration shall be English;

(c) there shall be three arbitrators, each of whom shall be disinterested in the arbitration and shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions; and

(d) the governing law of the arbitration shall be English.

18.3 Option to Litigate

Notwithstanding Condition 18.2 (*Governing Law and Dispute Resolution – Arbitration*), any holder of the Capital Securities may, in the alternative, and at its sole discretion, by notice in writing to the Issuer:

(a) within 28 days of service of a Request for Arbitration (as defined in the Rules); or

(b) in the event no arbitration is commenced,

require that a Dispute be heard by a court of law. If any holder of the Capital Securities gives such notice, the Dispute to which such notice refers shall be determined in accordance with Condition 18.4 (*Governing Law and Dispute Resolution – Effect of Exercise of Option to Litigate*) and, subject as provided below, any arbitration commenced under Condition 18.2 (*Governing Law and Dispute Resolution – Arbitration*) in respect of that Dispute will be terminated. Each person who gives such notice and the recipient of that notice will bear its own costs in relation to such terminated arbitration.

If any notice to terminate the arbitration in accordance with this Condition 18.3 is given after service of any Request for Arbitration in respect of any Dispute, the holder of the Capital Securities must also promptly give notice to the LCIA Court and to any Tribunal (each as defined in the Rules) already appointed in relation to the Dispute that such Dispute will be settled by the courts. Upon receipt of such notice by the LCIA Court, the arbitration and any appointment of any arbitrator in relation to such Dispute will immediately terminate. Any such arbitrator will be deemed to be *functus officio*. The termination is without prejudice to:

(i) the validity of any act done or order made by that arbitrator or by the court in support of that arbitration before his appointment is terminated;

(ii) his entitlement to be paid his proper fees and disbursements; and

(iii) the date when any claim or defence was raised for the purpose of applying any limitation bar or any similar rule or provision.

18.4 **Effect of Exercise of Option to Litigate**

In the event that a notice pursuant to Condition 18.3 (*Governing Law and Dispute Resolution – Option to Litigate*) is issued, the following provisions shall apply:

(a) subject to paragraph (c) below, the courts of England shall have exclusive jurisdiction to settle any Dispute and the Issuer submits to the exclusive jurisdiction of such courts;

(b) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(c) this Condition 18.4 is for the benefit of the holders of the Capital Securities only. As a result, and notwithstanding paragraph (a) above, any holder of the Capital Securities may take proceedings relating to a Dispute ("**Proceedings**") in any other court with jurisdiction. To the extent allowed by law, any holder of the Capital Securities may take concurrent Proceedings in any number of jurisdictions.

18.5 **Service of Process**

The Issuer appoints Mashreqbank psc, London Branch at 1st Floor, 2 London Wall Building, London EC2M 5PP, United Kingdom as its agent for service of process and agrees that, in the event of Mashreqbank psc, London Branch ceasing so to act or ceasing to be registered in England, it will immediately (and in any event within 30 days of the event taking place) appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes. Failure by a process agent to notify the person that appointed it of any process will not invalidate the relevant proceedings. Nothing herein shall affect the right to serve process in any other manner permitted by law.

18.6 **Waiver of Immunity**

The Issuer hereby irrevocably and unconditionally waives, with respect to the Capital Securities, any right to claim sovereign or other immunity from jurisdiction or execution and any similar defence and irrevocably and unconditionally consents to the giving of any relief or the issue of any process, including without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Proceedings or Disputes.

USE OF PROCEEDS

The proceeds from the issue of the Capital Securities will be U.S.$300,000,000 and will be paid gross to the Issuer on the Issue Date. The proceeds will be applied by the Issuer for its general corporate purposes and to further strengthen its capital base.

The estimated commissions, fees and expenses to be paid by the Issuer in connection with the issue of the Capital Securities will be U.S.$750,000.

PRESENTATION OF FINANCIAL INFORMATION

Historical financial statements

The historical financial statements relating to the Issuer included in this Prospectus are:

(a) the audited consolidated annual financial statements as of and for the financial year ended 31 December 2020 (the "**2020 Financial Statements**");

(b) the audited consolidated annual financial statements as of and for the financial year ended 31 December 2021 (the "**2021 Financial Statements**" and together with the 2020 Financial Statements, the "**Annual Financial Statements**"); and

(c) the unaudited condensed consolidated interim financial information as of and for the three months ended 31 March 2022 (the "**Interim Financial Statements**" and together with the Annual Financial Statements, the "**Financial Statements**").

The Annual Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board (the "**IASB**").

The Interim Financial Statements have been prepared in accordance with International Accounting Standard 34 – Interim Financial Reporting ("**IAS 34**").

The Issuer's financial year ends on 31 December and references in this document to a "financial year" are to the twelve-month period ended on 31 December of the year referred to.

The Issuer publishes its financial statements in UAE dirham.

Independent Auditors

The Annual Financial Statements have been audited by PricewaterhouseCoopers (Dubai branch) ("**PwC**"), without qualification, in accordance with International Standards on Auditing.

The Interim Financial Statements have been reviewed by PwC in accordance with the International Standard of Review Engagements 2410 "Review of Interim Financial Information performed by the Independent Auditor of the Entity" ("**ISRE 2410**"), without qualification.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected consolidated financial information of the Issuer for the years ended 31 December 2021 and 31 December 2020, which has been derived without material adjustment from the Annual Financial Statements. The selected financial information below should be read in conjunction with the risk factors set forth under heading "Risk Factors", the Financial Statements and other information included elsewhere in this Prospectus.

	As at and for the year ended 31 December 2021	**As at and for the year ended 31 December 2020**
	(in AED Millions)	*(in AED Millions)*
Selected balance sheet data:		
Cash and balances with central banks	17,508	17,942
Deposits and balances due from banks	28,805	28,239
Loans and advances (net)	66,433	57,286
Islamic financing and investment products measured at amortised cost	15,053	14,246
Investments (net) [(1)]	27,182	19,889
Total assets	177,054	158,523
Deposits and balances due to banks	19,566	14,844
Customers' deposits[(2)]	101,483	88,261
Total equity	21,024	20,188
Selected income statement data:		
Net interest income and income from Islamic products net of distribution to depositors	3,045	2,676
Net fee and commission income	1,577	1,220
Net investment income	177	321
Other income, net	1,007	931
General and administrative expenses	(2,623)	(2,945)
Profit/(Loss) for the year before non-controlling interests	1,076	(1,205)
Profits/(Loss) attributable to equity holders of the parent.	1,002	(1,278)
Selected ratios (in per cent.):		
Return on average assets[(3)]	0.65	(0.85)
Return on average equity[(4)]	5.15	(6.18)
Net loans to customer deposit ratio	80.3	81.0
Equity to asset ratio	11.87	12.74

Notes:

(1) Investments (net) are the sum of the line items "Other financial assets measured at fair value", "Other financial assets measured at amortised cost" and "Investment properties" appearing in the Issuer's consolidated statements of financial position for each relevant period.

(2) Customers' deposits are the sum of the line items "Customers' deposits" and "Islamic customers' deposits" appearing in the Issuer's consolidated statements of financial position for each relevant period.

(3) Return on average assets is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. See the "*Alternative Performance Measures*" section.

(4) Return on average equity is an adjusted version of return on equity, which measures profitability by revealing profit generated from the money shareholders have invested and where the denominator is average shareholders' equity. See the "*Alternative Performance Measures*" section.

ALTERNATIVE PERFORMANCE MEASURES

Certain financial measures presented by the Issuer in this Prospectus are not defined in accordance with IFRS. The Issuer believes that the alternative performance measures (as defined in the European Securities and Markets Authority guidelines (the "**ESMA Guidelines**") on Alternative Performance Measures ("**APMs**")) included in this Prospectus provide useful supplementary information to both investors and to the Issuer's management, as they facilitate the evaluation of underlying business performance across financial reporting periods. However, investors are cautioned not to place undue reliance on this information and should note that, since not all companies calculate financial measurements such as the APMs presented by the Issuer in this Prospectus in the same manner, these are not always directly comparable to performance metrics used by other companies.

Additionally, the APMs presented by the Issuer in this Prospectus are unaudited and have not been prepared in accordance with IFRS. Accordingly, these financial measures should not be seen as a substitute for measures defined according to IFRS. The Issuer considers that the following metrics (which are set out below along with their reconciliation, to the extent that such information is not defined according to IFRS and not included in the Financial Statements annexed to this Prospectus) presented in this Prospectus constitute APMs for the purposes of the ESMA Guidelines:

APM	Definition of APM	Method of Calculation
Gross non-performing loans to gross loans ratio	Non-performing loans to total gross loans ratio is calculated by using the value of nonperforming loans ("**NPLs**") as the numerator and the total value of the loan portfolio (including NPLs, and before the deduction of specific loan- loss provisions) as the denominator. It is often used as a proxy for asset quality and is intended to identify problems with asset quality in the loan portfolio.	(NPL (impaired loans and advances plus impaired Islamic financing and investment products) minus interest/profit suspended) divided by (Gross Loans (loans and advances plus Islamic financing and investment products minus unearned income) minus interest/profit suspended).
Loan loss coverage ratio	Loan loss coverage ratio is a financial measure which is used to determine how well a bank has prepared for losses on its loan portfolio.	Total allowance for impairment for loans and advances minus interest/profit suspended divided by NPL (impaired loans and advances plus impaired Islamic financing and investment products) minus interest/profit suspended.
Return on average assets	Return on average assets ("**ROA**") is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings.	Profits attributable to owners of the parent divided by average total assets (average of four quarters) excluding customer acceptances and positive fair value of derivatives.
Return on average equity	Return on average equity is an adjusted version of return on equity ("**ROE**"), which measures profitability by revealing profit generated from the money shareholders have invested and where the denominator is average shareholders' equity.	Profits attributable to owners of the parent divided by average equity attributable to owners of the parent (average of four quarters).
Net loans to customer deposit ratio	The loan to deposit ratio is used to calculate a lending institution's ability to cover withdrawals made by its customers. A lending institution that accepts deposits must have a	Net Loans and Advances (loans and advances at amortised cost plus Islamic financing and investment products) divided by total customer deposits

	certain measure of liquidity to maintain its normal daily operations.	(customer deposits plus Islamic customer deposits).
Net loans to customer deposit ratio and medium-term loan	This measures how much of customer deposits and medium term loans in deployed in loans. This also measures the liquidity aspect of bank.	Net Loans (loans and advances at amortised cost plus Islamic financing and investment products) divided by total customer deposits (customer deposits plus Islamic customer deposits) and Medium-Term Loans.
Equity to asset ratio	The shareholder equity ratio determines how much shareholders would receive in the event of a company-wide liquidation. Equity to asset ratio represents the amount of assets on which shareholders have a residual claim.	Total Equity divided by Total Assets.
Customer deposits to total funding base ratio	The Issuer counts on customer deposits as a stable source of funds for their lending base. Deposits offer many advantages to banks, such as predictable costs and a measurement of the degree of customer loyalty.	Total Customer Deposits (customer deposits plus Islamic customer deposits) divided by Funding Base (total liabilities minus other liabilities minus Insurance and Life Assurance Funds plus Paid-up Capital).
Net loans to total assets ratio	Net loans to total assets ratio is a percentage of assets tied up in loans. The higher the ratio, less liquid the bank is. Net loans represent total loans reduced by provision and interest in suspense.	Net Loans (loans and advances at amortised cost plus Islamic financing and investment products at amortised cost) divided by Total Assets.

DESCRIPTION OF THE ISSUER

History and overview of the Issuer

The Issuer is the oldest domestic commercial bank in the UAE and was incorporated by a decree of His Highness the Ruler of Dubai as a public shareholding company in the Emirate of Dubai in May 1967. The Issuer operates within the UAE and is registered with the Companies' Register of the Securities and Commodities Authority of the UAE under registration number 57. The Issuer changed its name to Mashreqbank from Bank of Oman Limited in 1993 and, as at 31 December 2021, was the fifth largest local commercial bank in the UAE in terms of total assets (see further "*Description of the Issuer – Competition – Ranking by Total Assets*"). The head office of the Issuer is located at Mashreqbank Global Headquarters, Al Umniyati Street, Burj Khalifa Community, P.O. Box 1250, Dubai, UAE. The Issuer is regulated by the UAE Central Bank.

The Issuer, through its head office in Dubai, operated a network of nineteen branches in the UAE, twenty five international branches (sixteen in Egypt, two in Qatar, two legal entities onshore and offshore in the Bahrain, one branch in each of the United States, Kuwait, the UK, India and Hong Kong) and four representative offices (in China, Bangladesh, Pakistan and Nepal), as at 31 December 2021.

The Issuer also operated 14 subsidiaries (eleven in the UAE, one in the Cayman Islands, one in Egypt and one in Pakistan), as at 31 December 2021, which provide services such as insurance, securities brokerage, consumer finance, asset management, investment management, business processing outsourcing (i.e., back office operations) and information technology.

The Issuer's core businesses are retail banking, corporate and investment banking, international banking and treasury and capital markets. The Issuer offers a diverse range of products and services including trade finance, contract finance, project finance, deposit taking, consumer lending, credit cards, wealth management, electronic funds transfer at points-of-sale, ATMs, call centres, treasury, correspondent banking, online banking and mobile banking. To further enhance its offering, the Issuer established an Islamic Banking division offering *Shari'a*-compliant financing in November 2006.

The Issuer's operating income, increased from AED 5,148 million for the year ended 31 December 2020 to AED 5,806 million for the year ended 31 December 2021, corresponding to an increase of 12.8 per cent. The Issuer's total assets have increased from AED 158,523 million as at 31 December 2020 to AED 177,054 million as at December 2021, representing an annual growth rate of 11.7 per cent.

The Issuer's total loans and advances to customers including Islamic financing, (net of impairment allowances) as at 31 December 2021 were AED 81,486 million, compared with AED 71,533 million as at 31 December 2020. The Issuer's customer deposits as at 31 December 2021 were AED 101,483 million, compared with AED 88,261 million as at 31 December 2020.

As at 31 December 2021, approximately 88.6 per cent. of the capital of the Issuer is owned by members of the Al-Ghurair family, either directly or indirectly through companies controlled by them, with the balance of the capital being held publicly. Given below are major shareholders at the Issuer as of 31 December 2021:

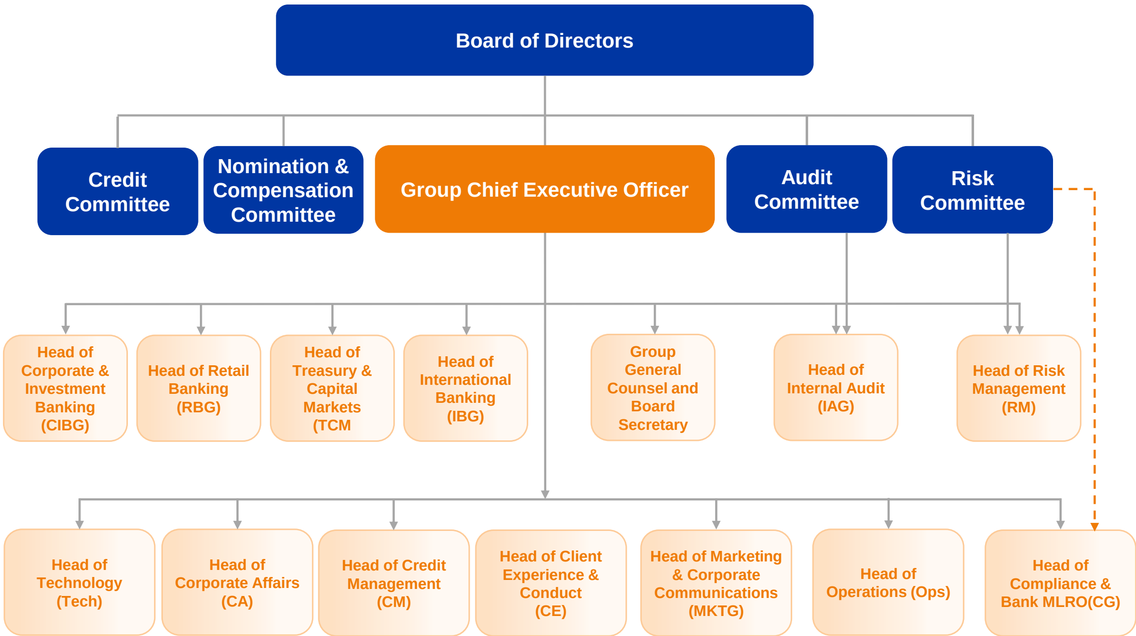
- Saif Al Ghurair Investment Company LLC – 39.50 per cent. of the Issuer's share capital;
- Abdulla Ahmed Al Ghurair Investment Co. – 31.10 per cent. of the Issuer's share capital; and
- Massar Investments LLC – 12.75 per cent. of the Issuer's share capital.

The Issuer's shares are listed and traded on the Dubai Financial Market.

Strategy

The Issuer introduced a rolling strategic growth plan in 2016 and has continued with it in 2022. This is expected to play an important role in providing strategic guidance and driving the business growth of the Issuer. The key areas of the Issuer's strategy are articulated around "SIMPLE": (i) superior client experience; (ii) innovation and information-led transformation; (iii) maximise shareholder value; (iv) performance excellence; (v) lean and agile organisation; and (vi) empowering people.

The following chart sets out the Issuer's organisational structure as at the date of this Prospectus.



Description of the Issuer's business

The Issuer divides its business into four business groups: Corporate and Investment Banking, Domestic Retail, Treasury and Capital Markets and International Banking.

1. ***Corporate and Investment Banking***

As a primary delivery channel for corporate banking products in the UAE, the Corporate and Investment Banking Group ("**CIBG**") consists of dedicated industry-specific business divisions and units providing a wide range of conventional and Islamic financial products exclusively to government, public and private sector entities and emerging corporates across a variety of industries.

The Issuer provides a wide range of innovative, customised and needs-based financing solutions. These are delivered through the Issuer's industry-specific "industry verticals". These verticals are supported by sophisticated product structuring teams and solution delivery experts. The Issuer's offering is served out of the UAE by a dedicated operational team in Abu Dhabi, Dubai and Sharjah organised to tap into these markets and position expertise accordingly.

The Issuer's industry verticals include the following:

(i) <u>Corporate Origination and Business Development</u>

The Corporate Origination and Business Development Team ("**COBD**") was formed as the first dedicated origination team within the corporate banking function across the UAE. The objective of the team is aligned with the Issuer's vision to be the region's most progressive bank, providing bespoke services and enabling innovative solutions for our clients covering both conventional and Islamic products. The COBD initiates new relationships of the Issuer, having experience across various industry verticals which covers the full suite of corporate products. The COBD has dedicated coverage teams across large corporates, middle markets, multinationals, Oman and Saudi Arabia. The COBD leverages its knowledge and segment dynamics to cater to its corporate customers' unique requirements. The COBD supports clients with innovative banking solutions should they want to venture into new industry sectors, geographies or market segments.

(ii) Global Transaction Banking

The Global Transaction Banking ("**GTB**") industry vertical offers transaction banking products and solutions in the markets in which the Issuer operates, including its core markets in the UAE, Egypt and other parts of the GCC. These range from complete corporate and financial institution cash and liquidity management to trade, supply-chain financing and commodity trade finance. GTB combines its expertise with comprehensive regional knowledge to pursue business opportunities with customised products and digital solutions to meet the dynamic and holistic needs of its corporate customers.

GTB's solutions are customised and backed by innovative products to support various sectors, leveraging state-of-the-art platforms to deliver consistent payments, collections, acquiring and cards services to a wide and varied customer base that includes both local and regional corporates and multinationals.

The GTB division has been recognised nationally and internationally and has received various awards and accolades for cash, trade, product innovation and service excellence.

(iii) Investment Banking

Investment Banking ("**IB**") provides a full spectrum of capital raising solutions for the Issuer's corporate and financial institution client base. IB engages with the Issuer's key clients across industry verticals and geographies. As a bank with a presence in diverse markets, the Issuer has an award-winning IB platform, with an established track record in leading debt capital raising mandates (conventional and *Shari'a*-compliant) and equity and debt advisory services.

The team responds to market conditions and works to meet clients' needs for capital by developing and implementing tailored solutions to meet their specific financing requirements. Applying expertise across sectors, regions and products, the Issuer creates customised, sophisticated strategies to help clients achieve their goals.

The Issuer's integrated coverage model offers clients access to industry and geography-specific expertise across all product solutions.

The high-value-low-volume nature of the IB division has supported the Issuer's overall client-first strategy and presents significant growth opportunities in order to achieve the Issuer's growth strategy.

Our IB Product Platform:

Loan Syndications

Term Financing for Corporates: The Issuer has partnered with a significant number of corporates, both large and mid-market, including debut borrowers, in arranging syndicated loans for the purpose of capital expenditure (capex), refinancing and general corporate purposes, for tenors in line with market practice.

Financial Institutions: The Issuer is an active arranger of syndicated loans for financial institutions in Africa, MENA and South Asia. The Issuer's loan distribution reach extends across syndicated markets in Europe, Asia and the Middle East.

Leveraged Buyouts: The Issuer facilitates new business acquisitions by sponsors and companies, using its ability to structure non-recourse facilities, underwrite and subsequently syndicate to a wider group of banks.

Structured Trade Solutions: The platform explores financing solutions around the working capital cycles of the Issuer's key clients and has the ability to devise structures that can ultimately be syndicated across market participants.

Debt Capital Markets

The Issuer is a leading arranger and underwriter of debt capital in investment grade and high-yield markets, providing clients with strategic advice at each stage of debt issuance, including origination, structuring and distribution. The Issuer has an integrated platform that enables it to connect markets and deliver custom-made financing solutions for clients across public benchmark and bespoke private placement formats.

Debt Advisory

Achieving a capital structure aligned to the underlying business cash flows of a corporate is key to sustainable operations. The Issuer's Debt Advisory team evaluates the suitability of a client's existing borrowing framework, engages in strategic discussions with clients, recommends an appropriate composition of bank and capital market debt and oversees the execution of debt reprofiling.

Equity Advisory

The Issuer's access to the wider investor community, through relationships with financial sponsors, family offices and private banking clients across the region, sits at the core of its Equity Advisory activities. The Issuer supports key clients at the final stages of their equity evolutions, with primary and secondary listing services, through alliances with prominent market participants from the region.

(iv) Islamic Banking

The Issuer offers a wide range of products and solutions developed on the basis of Islamic banking principles. The Issuer caters for the wide-ranging needs of its Islamic banking clients, such as working capital, construction finance, asset procurement, lease rental discounting, liquidity management, asset management and hedging services.

Islamic banking has grown exponentially in the region and the Issuer has successfully arranged finance for local and international clients, introducing them to local liquidity and unique Islamic corporate structures.

The Issuer is supervised by an independent *Shari'a* Board comprising world-renowned *Shari'a* scholars to ensure a high level of *Shari'a* compliance.

(v) Non-Banking Financial Institutions

The Non-Banking Financial Institutions ("**NBFI**") industry vertical provides coverage and product offerings across each of the regional markets where the Issuer operates, across the below sub-segments:

- Insurance Companies
- Investment Holding Companies
- Sovereign Wealth Funds
- Financial Sponsors

- Family Offices
- Pension Funds
- Non-Bank Finance Companies (Finance and Leasing Companies)

NBFI coverage extends to both conventional and Islamic banking offerings with solutions, including:

- Centralised pan-global coverage of the NBFI sector, supported by regional branches in the GCC and overseas branches in Egypt, India, Hong Kong, the United Kingdom and the United States of America.
- A dedicated team with industry expertise within the NBFI sector.
- The Issuer acts as an end-to-end solution provider, including in respect of structured and bespoke solutions.

The Issuer's industry expertise ensures tailor-made solutions across each segment, with a suite of product offerings including:

- Relationship lending (term loans and working capital facilities)
- Acquisition and bridge financing
- Fund leverage and capital call structures
- Treasury solutions (including repo versus total return swaps against investments, hedging and foreign exchange solutions)
- Liquidity management and global transaction banking mandates

(vi) Real Estate Finance and Advisory

The Issuer's Real Estate Finance and Advisory division is one of the few dedicated real estate platforms among banks in the region. Encompassing portfolio coverage and structuring teams, the division offers clients a full suite of services across debt, equity, advisory and trust management activities, and has led the Issuer's entry into real estate fund management. It specialises in all key property sectors including in the commercial (offices and industrial), hospitality, residential, logistics and retail sectors.

On the debt side, the division originates and executes innovative structures for mid-market and blue-chip real estate conglomerates including government entities, family offices, financial institutions and developers. The team has built a robust track record by executing landmark bilateral and syndicated transactions in the region. The division offers the following customer solutions:

- Investment property financing
- Development financing
- Hybrid financing
- Non-recourse financing
- Securitisation

On the advisory side, the division leverages its transactional expertise to provide a full range of services including the following:

- Buy-side and sell-side advisory
- Restructuring advisory
- Fund establishment and management

- Feasibility studies
- Commercial due diligence
- Private capital raising

The Real Estate Finance and Advisory industry vertical also leverages its strong relationships with institutional and government agencies to identify growth opportunities for the Issuer. The division continues to provide strategic support by managing institutional deposits which represent a major part of the Issuer's liabilities portfolio.

The Trust Management team within the Real Estate Finance and Advisory industry vertical has also successfully placed institutional funds in escrow accounts that are managed in-house, achieving a close to 30 per cent. market share of such projects in Dubai. The Trust Management department was the first to be mandated as an authorised escrow agent by the Real Estate Regulatory Agency of Dubai, and won the Issuer the award for "Top Trustee Bank" in 2010, 2013 and 2014. The team actively works with the Dubai Land Department on the Tayseer and Owner's Association fronts, and also assists the Issuer's other teams across the Emirates and in Qatar to formalise a streamlined trust management process. Going forward, the Real Estate Finance and Advisory division will leverage synergies across trust management, debt and advisory to arrange financing for stalled projects and help to complete developments that are commercially viable.

(vii) Investment Agency Services – Real Estate Division

The Issuer is one of few banks in the region to offer a full suite of facility agency, security agency and initial public offering services to its customers. The Issuer seeks to renew focus around its initial public offering function and provide world class services to participants in large syndicated transactions and fund raising processes.

(viii) Healthcare and Education

The Healthcare and Education division is committed to supporting clients' growth aspirations across the GCC, North Africa and Asia. It is supported by the Issuer's strong regional presence, diverse product range and transaction banking and non-lending services, refined sector expertise and an understanding of sector-specific dynamics.

The Healthcare and Education division is committed to supporting clients' growth aspirations across the GCC, North Africa and Asia, backed by the Issuer's strong regional presence.

The Issuer's sector expertise and agile model enables it to meet the requirements of healthcare and education clients, with versatile product offerings including state-of-the-art payment and liability management solutions, working capital and receivable finance solutions and merger and acquisition facilitation, finance and advisory.

In December 2019 the Issuer successfully launched the "Mashreq Healthcare Leaders Forum". The Mashreq Healthcare Leaders Forum is the first financial institution-backed healthcare forum in the Middle East. It aims to bring together thought leaders from across the healthcare sector value chain on one platform, aided by insights and research, to discuss ongoing and expected developments in the healthcare sector.

The sector coverage includes the following sub-verticals:

Education

- K-12 Education providers
- Universities
- Educational and training institutes
- Ed-tech

Healthcare

- Healthcare service providers
- Medical tech and equipment
- Pharmaceutical manufacturers and distributors

(ix) Energy Sector

The Energy Sector division supports clients operating in the conventional hydrocarbon value stream (upstream, midstream and downstream). The Energy Sector division specialises in offering wholesale banking solutions such as trade finance, expansionary credit and structured solutions, with customer centricity being the guiding ethos. The Issuer provides bespoke solutions to energy sector clients including corporate finance and debt capital markets offerings. With the growing significance of 'green energy', the Issuer continues to invest and grow its profile in the renewable energy sector.

Operating out of a key region for the energy industry, the Issuer's presence in the GCC market has allowed it to develop as an industry specialist. Additionally, with the growing significance of 'green energy', the Issuer continues to invest and grow its profile in the renewable energy sector.

The Energy Sector division, in collaboration with the Issuer's IB division, arranges bespoke solutions including corporate finance and debt capital markets offerings.

The Energy Sector division has successfully expanded its coverage to key operating markets in the GCC and is actively building relationships with industry stakeholders and large international oil companies. Given the UAE's geographical location in the east-west corridor, the Energy Sector division is a leading market participant, facilitating trades of oil and gas, an essential global commodity. The Energy Sector division leverages the Issuer's network as well as its financial institution capabilities to mitigate risks for clients. By connecting counterparties and matching trade flows, the Issuer's Energy Sector division supports the region's, and in particular the UAE's, position as a key location for the energy industry.

The Energy Sector division partners with renowned communications and research firms such as the Middle East Economic Digest and Gulf Intelligence. These resources can be accessed through the Energy Sector division's dedicated microsites linked to the Issuer's corporate website.

(x) Public Sector, Aviation and Utilities

The Public Sector, Aviation and Utilities division covers sectors that are prioritised by and largely sponsored by governments in the region. The division is focused, through dedicated specialised teams, on providing bespoke banking solutions to these sectors, covering the entire gamut of utility finance including generation, transmission and distribution, as well as specialised aviation finance with key market participants in the region.

These are vital and pivotal sectors that remain at the top of government priorities, and attract material investor interest. Governments within the GCC play a vital role in fuelling economic growth with a specific focus on these sectors, not only through their regulatory capabilities but also through rigorous investment activities towards plans to develop their economies and diversify sources of income.

The Issuer is committed to help fulfil the potential in these sectors and support clients' growth aspirations within the UAE, as well as elsewhere in the GCC and in Asia, backed by its strong geographical presence, sector specialisation, prominent corporate finance and transaction banking capabilities and state of the art digital banking platforms.

The scope of the sector currently includes the following:

- Public Sector: government authorities, ministries and federal entities
- Aviation: airlines, lessors and airline support companies
- Utilities: power generation, transmission and distribution

(xi) Trading Companies

The UAE has established itself as a global and regional trading hub for the Middle East and Africa region. With reference to foreign trade, the UAE's market is one of the world's most dynamic markets worldwide, placed among the 16 largest exporters and 20 largest importers of commodities, and the Issuer is proud to be part of this evolution. The Issuer has specifically segregated the Trading Companies division into the following specialisations in order to offer clients customised service levels:

- Retail Trade: fashion, food and beverage, supermarkets, electronics and fast-moving consumer goods
- Commodity: gold and soft commodities
- Automotive: dealers and accessories
- Diversified Groups: conglomerates and family houses

These units house relationship managers who are industry specialists with an ability to tailor and deliver innovative and structured trade finance solutions suited to the business needs of these segments. Industry specialists with in-depth market knowledge provide clients with expert advice and solutions. The specialised units have a deep understanding of trade cycles, providing clients with a sophisticated and customised offering of solutions, speed of execution and digitisation of customer offerings and operations. The units actively preserve an agility to adapt to new technology and have a strong risk culture.

(xii) Services and Manufacturing

The Issuer has specialised teams which focus on the services and manufacturing sectors at a global scale. These teams have been able to leverage the Issuer's wide geographical footprint and expertise in segments such as telecoms, media, technology, logistics (land and marine), warehousing, tourism, security and facility management, fast-moving consumer goods packaging, building materials (steel and cement) and other diversified segments, including defence and aerospace.

The Middle East is seeing rapid growth and a consistent focus on transitioning towards a non-oil based economy, and, consequently, governments in the GCC are incentivising the services and manufacturing segments to create a sustainable landscape which supports employment in the region. Through the Issuer's specialisation within these segments, the Issuer has been able to profile the market by assessing the backward and forward integration mechanism. This in turn has enabled the Issuer to benchmark industry triggers as and when they occur, to be better informed and alert to any opportunities and/or challenges that may arise.

(xiii) Business Transformation, Strategy and Intelligence

The Corporate and Investment Banking Group, together with the International Banking Group, is investing in a wholesale banking digital transformation, with the aim to enable top-line growth and differentiate its value proposition from the rest of the regional market.

The Issuer's wholesale bank digital strategy is focused on four external and four internal pillars of change, aimed to dramatically impact customer experience.

The customer-facing external pillars are:

1. Analytics: Investing in building an advanced analytics capability in order to identify new areas of portfolio growth and to manage risk
2. Coverage: Transforming the coverage model tools to enable frontline bankers to build stronger, deeper client relationships through a simplified operating environment
3. Next generation products: Transformation of transaction banking to provide innovative digital cash, trade and supply chain and liquidity management solutions

4. Digital customer journeys: Rebuilding customer journeys, starting with the credit customer journey, to provide efficient, customer-centric digital processes, enabling swifter access to credit with superior customer experience

The internal pillars are:

1. People: Investing in digital talent to grow internal capability and capacity for delivering the target operating model and digital solutions

2. Agile: Reorganising transformation teams into multidisciplinary 'agile squads' in order to decentralise ownership and increase autonomy

3. Technology: Investments in modernising the technology development architecture and accelerate the pace of change

4. Collaboration: Breaking down divisional silos to provide a 'one bank' approach to building shared capabilities across wholesale and retail

2. ***Domestic Retail***

With a domestic network of 8 branches, 13 electronic business service units, 450 ATMs and 23 interactive teller machines spread across the UAE, the Issuer is one of the leading providers of retail banking services in the UAE. The Issuer also provides retail banking products and services, through its branches, in a number of other countries including Qatar and Egypt.

The Issuer's retail banking products and services encompass a wide range of consumer loans, as well as basic and enhanced current accounts, demand, savings and term deposits, investment certificates, checking account services, electronic funds services, foreign exchange services, debit and credit cards. As part of its retail portfolio, the Issuer also offers a range of bancassurance products, which focus on whole life and term life insurance.

The Issuer continues to encourage the adoption of digital banking in the UAE and beyond. In 2019, the Issuer launched a programme to transform its branch network, focusing on advisory services that encourage greater human interactions between employees and customers for major financial decisions. For everyday transactions, the Issuer's state-of-the-art technology enables customers to benefit from a wide range of self-service facilities, and the Issuer plans to expand the range of these solutions to make banking quicker, easier and more accessible across the Issuer's network. In 2021, the Issuer's branches migrated 98 per cent. of all financial transactions and over 60 per cent. of non-financial transactions to alternative service channels such as machines, mobiles and online services.

The Issuer was the first UAE bank to launch a fully fledged digital bank, Mashreq Neo. In 2021, Mashreq Neo witnessed an uptake of approximately 45 per cent. of new customer acquisition, and the Issuer has major projects in the pipeline to expand these services beyond personal banking to cater to businesses and other client segments. This was soon followed by Mashreq's Neo Biz, the first digital banking proposition in the UAE that will offer customised and specifically tailored digital offerings for SMEs including start-ups and young businesses in the country. NeoBiz offers a better solution for businesses by providing an intuitive, uniform and convenient digital account opening experience, with speed and predictability. This, together with the Issuer's chatbot for assistance, information submission or KYC portal, enhanced transaction capability and value-added services, offers the Issuer's customers a comprehensive suite of digital services.

The Issuer was the first bank to establish Masterpass QR as well as Alipay in the region, and one of the first banks to introduce both Apple Pay and Samsung Pay when they launched in the UAE. The Issuer also launched its own digital wallet, Mashreq Pay, allowing customers to simply tap and pay at retail outlets, making their payment experience quicker, easier and more secure. The Issuer is also a part of the Emirates Digital Wallet initiative, working closely with the government to enable accessible cashless solutions for the unbanked and underbanked.

The Issuer's reputation for providing innovative solutions has been recognised by industry bodies. In 2021, the Issuer received several awards across many segments of the business relating to its innovative solutions. These included the "The Best Digital Bank in the Region from Asia Money" and "Best Branch Digitization and Digital Banking from MEA Finance 2021", in addition to many others.

The Issuer has increased its presence in private banking through bespoke financial solutions that cater to ultra-high net worth individuals and owners of companies. This includes building a portfolio of investment advisory services covering a range of in-house and third-party investment products such as equity mutual funds, fixed income funds, insurance and structured notes. The Issuer has further signed an agreement with the Bank of Singapore which will allow the Issuer's high net worth clients to open wealth management accounts in Singapore, a globally recognised offshore booking centre.

The Issuer continues to invest in initiatives that have the potential to not only deliver benefits for the business and its customers but also to support the overall start-up ecosystem in the UAE. In line with this objective, the Issuer partnered with the Dubai International Financial Centre ("**DIFC**") in the Fintech Hive start-up boot camp where conglomeration of new start-ups presented their product and business ideas.

The Issuer is also one of the two banks to sponsor the Dubai technology entrepreneur campus entrepreneur acceleration programme at Dubai Silicon Oasis, where the Issuer provided insights into financial management and banking processes to budding entrepreneurs.

In addition to the above, the Issuer has a strategic alliance with the Dubai Department of Economic Development (the "**DED**") and has created a tailor-made product for DED E-Trader customers.

3. ***Treasury and Capital Markets ("TCM")***

The Issuer's TCM group works closely with the Issuer's corporate, retail and international banking groups to serve the needs of its corporate, retail and financial institutions customers in the fields of treasury and investment products, both locally and internationally.

Mashreq Securities LLC, a subsidiary of the Issuer, is an accredited securities broker on the Dubai Financial Market PJSC, the Abu Dhabi Securities Exchange ("**ADX**") and NASDAQ Dubai. Mashreq Securities LLC offers brokerage in both conventional as well as Islamic formats.

The Issuer also facilitates access to regional and international markets. It offers individual and institutional clients a range of products and services via trading platforms.

The Issuer is also a broker and clearing member of the Dubai Gold and Commodities Exchange and a member of the Dubai Metal Exchange, and has established an asset management subsidiary, Mashreq Capital (DIFC) Limited in the DIFC. In addition, the Issuer's TCM group undertakes a limited amount of proprietary trading activity.

In recent years, the Issuer has extended its TCM product range to include customised derivative products designed to meet customers' individual investment and hedging requirements in foreign exchange, interest rates and equities.

The TCM group is also primarily responsible for managing the Issuer's liquidity requirements. It acts under the supervision of ALCO.

Rates and Fixed Income Desk

The Rates and Fixed Income desk focuses on providing liability hedging solutions and tailor-made investment strategies to corporate, institutional and high net worth customers of the bank across the GCC region. The desk provides access to primary and secondary fixed income markets to the Issuer's clients including banks, corporates, non-bank financial institutions, family offices and high net worth individuals. The desk produces several research publications on a periodic basis covering international and regional economic and market developments. The desk was involved in the marketing, distribution and placement of a number of new bond transactions during 2021, including acting as a Joint Lead Manager and Bookrunner in the sovereign issuances by the United Arab Emirates and the Emirate of Sharjah and issuances by banks including Axis Bank Ltd., Sovcombank PJSC, Access Bank PLC, United Bank for Africa PLC, Ecobank Nigeria Ltd. and Ecobank Transnational Inc. The desk also worked on sukuk issuances by Emaar Properties PJSC and Ahli United Bank BSC in the capacity of Joint Lead Manager and Bookrunner. The desk has continued to expand its reverse repo offering by adding new relationships and volumes which are expected to grow further during 2022.

Asset Management

The Issuer's Asset Management business comprises discretionary mandates for professional investors and public funds across a wide spectrum of strategies. The public funds are housed in the DIFC.

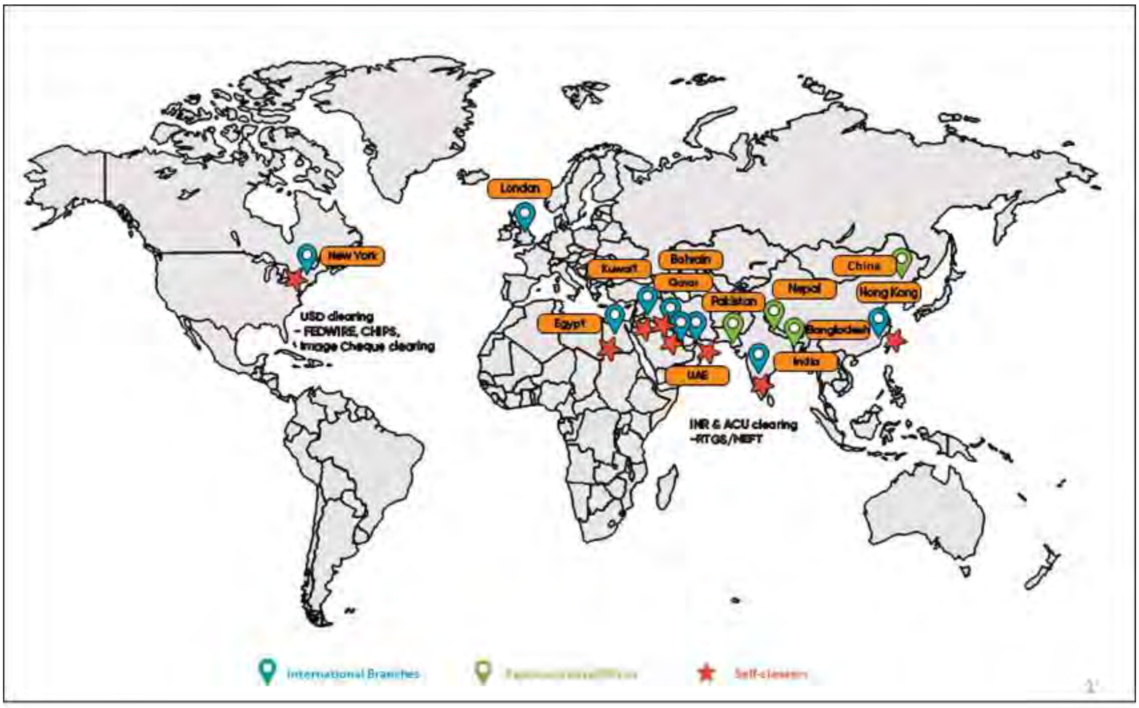
Mashreq Capital (DIFC) Ltd. ("**MC**") is regulated by the Dubai Financial Services Authority and is responsible for running public funds and discretionary mandates. MC specialises in regional public equities and global fixed income, in both the *Shari'a* and conventional spaces. MC offers comprehensive investment solutions, leveraging on regional investment expertise and fundamental research capability to deliver customised solutions. MC has one of the longest track records of any asset manager in the region.

4. ***International Banking***

Mashreq's international network spans twelve countries: the United States, the United Kingdom, Kuwait, India and Hong Kong operate one branch each; Egypt has twelve branches in Cairo and Alexandria; Bahrain has two legal entities of onshore and offshore and Qatar has two branches in Doha. The Issuer is also present in Pakistan, Bangladesh, Nepal and China through representative offices. The offshore banking licence in Bahrain plays an important role in both mobilising wholesale low cost institutional deposits and in the growth of the Issuer's Bahraini business.

The Issuer takes part in USD clearing, intermediating international trade and taking related corporate exposure in key countries having a trade link with the GCC. Core to its strategy, the Issuer focuses on growing its international corporate, financial institutions and public sector book of business by leveraging its footprint to provide a wide array of financial services and products to its clients.

The Issuer's Widespread Network



Loan Portfolio

The Issuer's total loans and advances to customers (net of impairment allowances) were AED 81,486 million as at 31 December 2021 and AED 71,533 million as at 31 December 2020. The following table sets out the Issuer's gross loans (including Islamic financing and interest proceeds), provisions and loan to deposit ratios as at the dates indicated.

	As at 31 December 2021	As at 31 December 2020
	(AED millions)	
Gross loans	88,207	77,344
Interest / other income in suspense	(875)	(766)
Allowances for impairment	(5,846)	(5,045)
Net loans	81,486	71,533
Net loans/customer deposits (per cent.)	80.3	81.0
Net loans/customer deposit + medium term loan (per cent.)	74.9	73.1

Distribution of Loans by Type of Collateral

As at 31 December 2021, the Issuer held collateral to the value of approximately AED 45.8 billion against loans and advances, consisting primarily of mortgage interests over property, other registered securities over assets and guarantees.

The Issuer's credit procedures and policies specify margins and collateral coverage ratios (i.e., loan to value of collateral) depending on the type of facility and collateral obtained as well as the financial strength of the underlying borrower. The Issuer has systems in place to monitor and enforce margin and collateral top-up requirements, if any. The Issuer's method of valuing the collateral depends upon the type of collateral taken. The Issuer also obtains independent valuations of other types of collateral on a regular basis. Borrowers may be required to provide a cash top-up or provide additional collateral as a result of such valuations.

Consumer loans provided for the purchase of assets, such as vehicles or residential property, are typically secured by the relevant assets. Those assets which are the subject of security in favour of the Issuer are valued in advance of the loan being granted. For the purposes of calculating collateral coverage ratios, the Issuer uses the lower of the purchase cost or fair market value of the relevant assets. Unsecured consumer loans are granted against the transfer of salary of the borrower and to employees of pre-approved companies or government departments.

Distribution of Loans by Maturity

The following table shows the distribution of the Issuer's loan portfolio (net of impairment allowances) by maturity as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021	As at 31 December 2020
	(AED millions)	
Short-term loans[1]	37,002	34,692
Medium- and long-term loans[2]	44,484	36,841
Total	81,486	71,533

Notes:
(1) Residual maturities of up to and including one year.
(2) Residual maturities in excess of one year.

Distribution of Loans by Currency

The following table shows the distribution of the Issuer's loan portfolio (net of impairment allowances) by currency as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021	As at 31 December 2020
	(AED millions)	
AED	46,834	44,002
Foreign currency	34,652	27,531
Total	81,486	71,533

The loans and advances, including Islamic financing, made by the Issuer are typically funded in the same currency as the deposits and other sources of funds obtained by the Issuer, which limits the Issuer's exposure to exchange rate fluctuations. See "*Risk Management — Currency Risk Management*" below.

Credit Approval Procedures

The Board of Directors of the Issuer delegates approval authorities to the Chairman of the Issuer. The Chairman then delegates such authorities to the Chief Executive Officer ("**CEO**") and Chief Credit Officer ("**CCO**") of the Issuer, who are, in turn, authorised to delegate certain credit approval authorities further within the credit risk management team of the Issuer, based on the experience and employment grades of the credit approvers in the team.

The CCO is responsible for overseeing all aspects of credit underwriting and management, and is supported by a team of experienced and trained credit risk managers.

The CCO and credit risk managers have delegated authority within the risk management framework to approve credit transactions and manage credit risk on an ongoing basis. Credit proposals exceeding the authority of the CCO will be submitted to the CEO, Chairman and/or to Board Credit Committee for approval.

The Issuer has separate approval processes for its wholesale and retail businesses.

Commercial Lending

All credit applications are subject to the Issuer's credit policies, credit limits, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time.

Credit applications typically include the following information: the risk rating of the borrower; transaction details (including the amount and type of facility sought and pricing); the relevant credit conditions of the borrower; the security details of the borrower; and information relating to the operating condition, business and management of the borrower including a detailed financial analysis, background/historical information relating to the borrower and related industry factors. The Issuer sets credit limits for all borrowers and/or counterparties based on their creditworthiness.

The Issuer has implemented a credit risk rating framework that supports the development of key credit risk parameter estimates in order to measure credit and transaction risk. In 2016, the Issuer partnered with Moody's Risk Analytics to perform a Basel internal ratings-based compliant redevelopment and model validation exercise. The risk parameters used in the new risk rating models are transparent and may be replicated in order to provide consistency of credit approval, as well as providing minimum lending standards for each of the risk rating categories. The Issuer's credit risk rating system is subject to a model governance and review framework which stipulates periodic validation and continuous monitoring of key performance indicators for these models. The objectives of this framework are to ensure that credit risk rating methodologies and parameters remain appropriately designed and developed, independently validated and regularly reviewed. Credit risk rating models, however, remain subject to model risk due to their statistical nature and data limitations. These models are developed by the Enterprise Risk Management team under the umbrella of the Chief Risk Officer ("**CRO**").

All credit lines or facilities extended by the Issuer are approved within delegated authorities under the ultimate authority of the Board Credit Committee.

The Issuer has established country limits for cross-border and transfer risk between countries. Individual country limits are defined based on a detailed country and transfer risk policy, defining acceptable country credit risk exposure and evaluating and controlling cross-border risk. These limits are regularly reviewed by the Issuer's credit risk management and periodically reviewed by the Enterprise Risk Committee. The Issuer uses an international risk rating system to differentiate between the quality of various sovereign risks.

The Issuer has diversified its exposure to avoid concentration risk. However, growth in exposure in some international jurisdictions with higher risk profiles than the UAE could have a material impact on the Issuer's results.

Retail Lending

Each retail credit application is considered for approval according to a product programme, which is devised in accordance with product policy parameters approved by the CCO. The product policies are guided by the Issuer's overarching Retail Credit Policy Manual, which is approved by the Board Risk Committee. Different authority levels are specified for approving product programmes and exceptions to, and individual loans/credits under, such product programmes. Each product programme contains detailed credit criteria (for example salary multiples, bank statements, age, residency, etc.) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product programme) to Level 5 which is authorised by the CCO.

Credit Review Procedures and Loan Classification

Specialists within the Enterprise Risk Management (Fundamental Credit Review) and Internal Audit groups undertake regular reviews of the Issuer's portfolio. This involves a sampling of assets in the wholesale portfolio. In retail, the focus is on testing the Issuer's risk management processes, including the periodic review of retail assets, portfolio quality and related provisions. Specialist independent auditors subject the Issuer's risk assets to a quality evaluation on a regular basis. Reviews are conducted in conformity with the guidelines of the UAE Central Bank and the Issuer's internal policies in order to assist in the early identification of accrual and potential performance problems. The specialists validate risk ratings of those commercial and institutional clients and ensure approved credit policies, guidelines and operating procedures across the Issuer are implemented, or highlight identified gaps in their reports.

The Fundamental Credit Review and Internal Audit groups function to provide the Issuer's management and the Board of Directors with an independent and objective assessment, as well as ongoing monitoring of the quality of asset portfolios across the Issuer. It is an important component of the Issuer's enterprise-wide risk management framework designed to assist the Issuer's management in ensuring that asset portfolios are managed in a manner consistent with strategy, risk appetite, sound qualitative and quantitative credit due diligence, emerging risks, credit policies and applicable credit regulatory requirements.

Loan Classification

The Issuer has in place a risk rating system for its wholesale borrowers based on probability of default models. An application and behavioural scorecard has also been developed for the Issuer's principal retail products.

The Issuer's master risk rating scale for performing assets comprises 25 grades (MRS1 to MRS25) and encompasses material asset portfolios of the Issuer. Risk ratings are granularly defined and, as they are based on specific models for specific segments, are comparable across the entire portfolio.

While the Issuer has adopted the risk rating system, it continues to ensure that its policies remain compliant with UAE Central Bank regulations. The Issuer's portfolio of non-performing loans (obligations which are more than 90 days past due for principal or interest) continue, however, to be rated either 50, 60, 70 or 80, corresponding to classifications of as being Non-Accrual Under Restructuring, Sub-standard, Doubtful or Loss, as required by applicable UAE Central Bank regulations. The UAE Central Bank requires the following classification policy:

- Watchlist: These are loans and advances, including Islamic financing, where the borrower shows some weaknesses in its financial condition and credit worthiness, requiring focused attention but not allocation of provisions;

- Sub-standard loan: These are loans which may lead to the Issuer to incur some loss due to adverse factors (financial, economic, legal, political or managerial) which may hinder repayment, or due to weakening of security. Normally, this category includes loans and advances in which payment of principal is in arrears beyond 90 days. In such a case, a provision of 25 per cent. of the total loan balance is required;

- Doubtful loan: These are loans the full recovery of which 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 is not sound and securities are not sufficient). In such a case, a provision of 50 per cent. of the total loan balance is required; and

- Loss loan: These are loans where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing will be recovered. In such a case, a provision of 100 per cent. of the total loan balance is required.

(*Note: The specific provisions as above are to be based on the Net Exposure Amount, that being the Outstanding Loan balance less the Net Realisable Value of the collateral held calculated as per the UAE Central Bank guidelines*).

Provisions

The Issuer's policy for the calculation of impairment provisions for loans and advances complies in all material respects with the specific and general provision requirements of the UAE Central Bank. Additionally, in line with the UAE Central Bank guidelines, all banks operating in the UAE are required, in addition to the specific provisions, to build a general provision for unclassified loans and advances equal to 1.5 per cent. of risk weighted assets. The Issuer currently maintains a general provision of 2.1 per cent. of its total gross loan portfolio, including Islamic financing. As at 31 December 2021, the Issuer had specific impairment allowances for loans of AED 4,911 million in addition to a collective impairment allowance of AED 1,810 million.

Impairment allowance requirements in respect of classified assets (under the Issuer's internal risk classification) broadly follow the following guidelines for the Issuer's exposure:

Category	Provision (%)
Sub-standard	25
Doubtful	50
Loss	100

Retail banking products are provisioned in accordance with UAE Central Bank regulations. The Issuer writes off retail assets (excluding mortgages) once they are 180 days past their due date. Retail mortgage loans are provided in line with UAE Central Bank regulation which mandates provisioning from 90 days past due, calculated on discounted loan-to-value based on current valuation. Loss, given default and expected loss metrics have also been developed for the major retail products.

In addition to the above and in accordance with UAE Central Bank guidance notes to banks and finance companies, the Issuer also measures general provisions under IFRS 9 rules. IFRS 9 outlines a 'three-stage' risk-based model for calculation of impairment based on changes in credit quality since initial recognition of a facility. As required by UAE Central Bank guidelines, the Issuer takes the higher of the loan loss provisions required under IFRS 9 and UAE Central Bank regulations.

In adopting prudent credit review and risk management procedures, the Issuer seeks to maintain tight control over its loan portfolio to manage credit costs effectively and to minimise unexpected losses.

The Issuer also has a separate collection and recovery team for all delinquent retail lending, which commences collection efforts between one and 30 days after the first default. More aggressive recovery efforts are initiated when a loan has been delinquent for more than 90 days. For the wholesale portfolio, the Issuer has a separate unit, the Special Asset Unit, which is responsible for handling non-performing commercial loans with a view to ensuring maximum recovery for the Issuer. In addition, the Issuer's legal department is fully involved throughout the remedial process, initiating appropriate legal action where necessary.

Impact of the New IFRS 9 Impairment Guidelines

International Financial Reporting Standards

In January 2018, the Issuer adopted the IFRS 9 standard, which resulted in changes to the Issuer's presentations and disclosure in its financial statements, as required by IFRS. This has fundamentally redesigned the provisioning process, moving from an 'incurred loss' model to a forward-looking 'expected loss' model. The standard contains a 'three stage' approach to recognise credit impairment, which is based on the changes observed in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate the level of impairment losses to be recognised. For the recognition of impairment losses on financial assets, expected loss is to be computed.

Doubtful and Loss Accounts – Customers

The following table shows the Issuer's non-performing loans, including Islamic financing, and related provisions and ratios as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021	As at 31 December 2020
	(AED millions)	
Gross loans	88,207	77,344
Interest/ other income in suspense	875	766
Impairment allowance for doubtful loans	5,846	5,045
Total allowance for impairment	6,721	5,811
Non-performing loans	5,434	4,637
Gross non-performing loans to gross loans ratio	5.2	5.1
Loan loss coverage ratio	128	130

The Issuer charges interest on most non-performing accounts for litigation purposes but does not record such accrued income with respect to non-performing accounts as income in preparing its financial statements. The Issuer writes off certain loans against provisions held, in order to streamline its loan portfolio and in the year ended 31 December 2021, the Issuer wrote off AED 1.0 billion from classified accounts which had been provisioned.

Doubtful and Loss Accounts – Banks

The following table shows the Issuer's non-performing assets and related provisions and ratios as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021	As at 31 December 2020
	(AED millions)	
Due from banks (gross)	28,973	28,405
Non-performing bank assets	79	85
Impairment allowance for bank assets	167	166
Non-performing bank assets/total due from bank (per cent.)	0.27	0.30
Total impairment allowance/non-performing bank assets (per cent.)	211.4	195.3

Investment Portfolio

As at 31 December 2021, the Issuer's investment portfolio represented 15.4 per cent. of its total assets (compared with 12.5 per cent. as at 31 December 2020).

The equity holdings of the Issuer constituted 2.5 per cent. of the Issuer's investment portfolio as at 31 December 2021 (compared with 2.6 per cent. as at 31 December 2020). Debt securities held by the Issuer include securities issued by banks, GCC and OECD sovereigns, as well as a range of other high-grade bonds.

Deposits and Other Funding Sources

As at 31 December 2021, customer deposits constituted 65 per cent. of the Issuer's total liabilities (compared with 63.8 per cent. as at 31 December 2020).

In February 2004, the Issuer established a Euro Medium Term Note Programme (the "**EMTN Programme**"). The size of the EMTN Programme was increased from U.S.$750 million to U.S.$2 billion in March 2006 and increased again to U.S.$5 billion in September 2010.

In 2018, the Issuer issued 63 private placement Notes under the EMTN Programme for a total of U.S.$1,909.1 million. In 2019, the Issuer issued 76 private placement notes for a total of U.S.$2,021 million and a U.S.$675 million benchmark 5-year public bond under the EMTN Programme. In 2020, the Issuer issued 22 private placement notes for a total of U.S.$618.1 million. In 2021, the Issuer did not issue any private placement notes.

The following table sets out the maturity profile of the Issuer's liabilities as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021		As at 31 December 2020	
	(AED millions)	*Per cent.*	*(AED millions)*	*Per cent.*
Short-term[(1)]	145,981	93.6	122,689	88.7

	As at 31 December 2021		As at 31 December 2020	
	(AED millions)	*Per cent.*	*(AED millions)*	*Per cent.*
Long-term[(2)]	10,048	6.4	15,646	11.3
Total	156,029	100	138,335	100

(1) Short-term means deposits maturing in less than one year, and other liabilities.
(2) Long-term means deposits and borrowing maturing in more than one year.

Market Risk Management

The Issuer's exposure to market risk in investments and other trading products is monitored and controlled on a daily basis by the Issuer's Market and Traded Credit Risk Unit under the Risk Management division using detailed daily management information reports. The Treasury and Capital Markets group stipulates individual dealer position and trading limits in treasury-managed activities within the overall regulatory guidelines and according to the Issuer's internal frameworks and risk appetite. Cross-border and financial institutions exposure limits for money market and other banking activities are approved in accordance with guidelines set out in the Issuer's credit policy and within the Issuer's defined risk appetite framework.

A key element in market risk management is the estimation of potential loss that may arise from adverse changes in market conditions. To estimate such potential loss, the Issuer implemented a Value at Risk ("**VaR**") model which is being used to set VaR-based limits with respect to market risk. The VaR model takes into account variables that may affect portfolio value such as interest rates, foreign exchange rates and security prices and their respective volatilities, and the correlations between these variables. The VaR estimates take account of potential diversification benefits of different positions both within each and across different portfolios.

Liquidity Risk Management

The Issuer manages its liquidity in accordance with UAE Central Bank requirements and its own internal guidelines. The UAE Central Bank sets cash reserve requirements on deposits, which are currently 1 per cent. on time deposits and 7 per cent. on current, savings and call deposits. The UAE Central Bank also imposes a mandatory 1:1 utilisation ratio whereby loans and advances (combined with interbank placements having a remaining term of greater than three months) should not exceed stable funds. Stable funds are defined by the UAE Central Bank to mean free own funds, interbank deposits with a remaining term of more than six months and stable customer deposits. As at 31 December 2021, the Issuer's net loans and advances, including Islamic financing, to stable funds ratio was 88.7 per cent. To guard against liquidity risk, the Issuer has diversified its funding sources and manages its assets with liquidity in mind, seeking to maintain a balance of cash, cash equivalents and readily marketable securities. ALCO sets and monitors liquidity ratios and regularly revises and updates the Issuer's liquidity management policies to ensure that the Issuer is in a position to meet its obligations as they fall due.

The following table sets forth a number of liquidity ratios for the Issuer as at 31 December 2021 and 2020:

Liquidity Ratios	**As at 31 December 2021**	**As at 31 December 2020**
Customer deposits/total funding base	68.8	68.1
Net loans/customer deposits	80.3	81.0
Net loans/total assets	46.0	45.1

Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments. The Issuer is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities.

The Issuer uses simulation-modelling tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by ALCO. Most of the Issuer's assets and liabilities are of a floating rate nature and therefore the price of both assets and liabilities move simultaneously, providing a natural hedge and reducing interest rate exposure. Moreover, the majority of the Issuer's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

Currency Risk Management

The UAE dirham is the Issuer's functional currency. The majority of the Issuer's assets and liabilities are denominated in UAE dirham or U.S. dollars. As a result, limited structural cross-currency foreign currency exposure exists. However, as at 31 December 2021, the Issuer maintained a short U.S. dollar position of AED 2.8 billion, which is within limits approved by ALCO. The Issuer's other net foreign exchange exposure was not significant.

See Note 43 to the 2021 Financial Statements.

Internal Audit

The Internal Audit Group of the Issuer provides independent assurance on the effectiveness of lending and risk management processes. The group verifies that the credit facilities provided adhere to the Issuer's internal policies and regulatory guidelines. It also reviews the processes associated with portfolio monitoring, know your customer (KYC), operating procedures and adherence to *Shari'a* compliance guidelines, as applicable. For commercial and institutional clients, it further includes credit initiation, approval, account management and the risk rating assigned to the borrower. For the retail customers, the audit team also assesses the processes to highlight portfolio risk by product and segment.

Competition

As at 31 December 2021, the Issuer was the fifth largest local bank in the UAE in terms of total assets (see "*Ranking by Total Assets*" below). The Issuer competes principally with other commercial banks in the UAE, but also faces competition from regional and international banks and investment companies.

The following tables show rankings of local banks operating in the UAE by total assets, customer deposits, total loans and advances and retail loans and advances as at 31 December 2021 and 31 December 2020:

Ranking by Total Assets	**As at 31 December 2021**	**As at 31 December 2020**
	(AED millions)	
First Abu Dhabi Bank	1,000,343	919,060
Emirates NBD	687,436	698,087
Abu Dhabi Commercial Bank	440,278	411,156
Dubai Islamic Bank	279,082	289,556
Mashreqbank	177,054	158,253
Abu Dhabi Islamic Bank	136,868	127,816

Source: Annual reports and financial statements of the relevant banks for the year ended 31 December 2021.

Ranking by Customer Deposits	**As at 31 December 2021**	**As at 31 December 2020**
	(AED millions)	
First Abu Dhabi Bank	614,459	540,882
Emirates NBD	456,483	464,197
Abu Dhabi Commercial Bank	265,052	251,395
Dubai Islamic Bank	205,845	205,925
Abu Dhabi Islamic Bank	109,611	101,276
Mashreqbank	101,483	88,261

Source: 2021 Annual reports and financial statements of the relevant banks for the year ended 31 December 2021.

Ranking by Loans and Advances	**As at 31 December 2021**	**As at 31 December 2020**
	(AED millions)	
Emirates NBD	422,272	443,541
First Abu Dhabi Bank	410,155	386,644
Abu Dhabi Commercial Bank	244,282	238,976
Dubai Islamic Bank	288,485	232,034
Abu Dhabi Islamic Bank	88,251	83,409
Mashreqbank	81,486	71,533

Source: 2021 Annual reports and financial statements of the relevant banks for the year ended 31 December 2021.

Property

The Issuer owns a multi-storey building in Dubai as its corporate headquarters. The Issuer also owns buildings in Abu Dhabi, Ajman and Dubai, each of which is partially occupied by the Issuer. The total cost of real property assets owned by the Issuer as at 31 December 2021 was AED 1,189 million with accumulated depreciation of AED 253 million, giving a net book value of the Issuer's real estate assets as at such date of AED 936 million. The Issuer also owns land costing AED 202 million, which was acquired in settlement of debt. As at 31 December 2021, the book value of such properties was AED 86 million.

Capital Expenditure

For the period ended 31 December 2021, the Issuer incurred capital expenditure amounting to AED 129 million and, for the year ended 31 December 2020, the Issuer incurred AED 336 million of capital expenditure.

Capital Adequacy

The UAE Central Bank, as per Basel III guidelines, requires all UAE banks to maintain a minimum total capital adequacy ratio, calculated as the sum of Tier 1 Capital and Tier 2 Capital, of 10.5 per cent. Effective from 1 January 2019, within this minimum capital adequacy ratio, banks are required to maintain a 7 per cent. minimum Common Equity Tier 1 ratio and an 8.5 per cent. minimum Tier 1 Capital ratio. Additionally, banks are required to maintain a 2.5 per cent. Capital Conservation Buffer, as per transitional arrangement. The total capital adequacy ratio including Capital Conservation Buffer comes to 13 per cent.

As at 31 March 2022, the Issuer had a total capital adequacy ratio of 14 per cent., a Tier 1 Capital ratio of 12.9 per cent. and a Tier 2 Capital ratio of 1.1 per cent., which were all above the minimum UAE Central Bank requirements. The Issuer's capital management is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory capital adequacy ratio requirements.

Leverage and Liquidity

Basel III introduced a minimum 3 per cent. leverage ratio effective 30 June 2020 and two liquidity ratios, Liquidity Coverage Ratio ("**LCR**") and Net Stable Funding Ratio ("**NSFR**").

LCR requires a bank to hold sufficient high-quality liquid assets to cover its total net cash flows over a 30-day stress-testing period. Banks are required to maintain a minimum LCR ratio of 100 per cent. from 1 January 2019. The Issuer's LCR ratio as at 31 December 2021 was 149 per cent.

Anti-Money Laundering Policy

The Issuer has implemented an Anti-Money Laundering ("**AML**") programme that is designed to comply with all applicable local laws, regulations and guidance relating the prevention of money laundering, terrorist financing and related financial crimes. The AML programme includes, *inter alia*, written policies and procedures, a designated Money Laundering Reporting Officer, regular training of relevant Issuer employees and independent testing of the programme. The Issuer operates automated systems and manual monitoring to detect potential suspicious activities which are subject to external reporting obligations to appropriate supervisory agencies in accordance with all applicable laws. The Issuer continuously strengthens its AML programme by updating written policies, procedures and internal controls designed to prevent, detect and mitigate all applicable financial crime risks. For further detail regarding the Issuer's AML programme, see "*Regulatory – 2018 Consent Order*" below.

Regulatory

2021 Consent Order

In 2021, the Issuer reached a resolution with the New York State Department of Financial Services (the "**DFS**"), the Federal Reserve Board of Governors and Federal Reserve Bank of New York (the "**Fed**") and the U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") regarding violations of OFAC's Sudanese Sanctions Regulations for the period between January 2005 and February 2009. Pursuant to a Consent Order entered into by the Issuer and the DFS (the "**2021 Consent Order**"), the Issuer has agreed to pay the DFS a total of U.S.$100 million over a two-year period. In contrast, by reference to the same transaction activity, the Fed and OFAC did not impose a financial penalty on the Issuer.

The 2021 Consent Order and the resolutions reached with the Fed and OFAC address findings relating to the Issuer's processing of U.S dollar payments through U.S. correspondent banks originating from accounts of Sudanese banks held outside the United States, a practice that the Issuer self-terminated in February 2009. As noted by the DFS in the 2021 Consent Order, the Issuer fully cooperated with the DFS during its investigation into these matters, including by reporting on the results of its internal investigation of such matters, and that the Issuer had on its own initiative undertaken significant remediation to prevent similar events from recurring. The DFS also noted that the Issuer had demonstrated a commitment to building an effective and sustainable OFAC compliance programme, which the DFS deemed adequate with sufficient controls in place. Both the 2021 Consent Order and the resolution with the Fed impose certain post-settlement reporting obligations, including a requirement by the Fed to retain an independent consultant to conduct an OFAC compliance review.

Dialogue with a US agency regarding the same matter is ongoing and, based on legal advice, it is premature at this stage to determine if the Issuer is likely to be subject to any further penalty or the quantum of any such penalty.

2018 Consent Order

In 2018, the Issuer reached a settlement with certain U.S. authorities regarding U.S. sanctions compliance in the period 2016 to 2017, involving a Consent Order by the DFS (the "**2018 Consent Order**"). Under the terms of the 2018 Consent Order, the Issuer has agreed to pay the DFS a total of U.S.$40 million.

The 2018 Consent Order addresses findings related to Anti-Money Laundering and Bank Secrecy Act violations as well as regulations issued by OFAC as relates to the activities of the New York Branch of the Issuer, which provides U.S. dollar clearing services.

The 2018 Consent Order did not specify any wilful violations by the Issuer. In particular, it was noted in the 2018 Consent Order that the Issuer has demonstrated a keen interest in, and commitment to, remediating its regulatory issues addressed in the 2018 Consent Order and has demonstrated laudable conduct in seeking to meet its compliance obligations.

The Issuer is committed to establishing and maintaining appropriate and effective Anti-Money Laundering, Bank Secrecy Act and sanctions compliance policies. The Issuer has worked with the DFS-appointed consultant on the remediation and improvement of all Anti-Money Laundering, Bank Secrecy Act and sanctions compliance policies, procedures, methodologies and systems. The Issuer has enhanced and implemented: (i) a Bank Secrecy Act, Anti-Money Laundering and Sanctions Program Manual; (ii) KYC Policy and Standard Operating Procedures; (iii) Transaction Monitoring Standard Operating Procedures; (iv) Quality Assurance Methodology and Standard Operating Procedures; (v) Customer Risk Assessment Methodology and Form; (vi) Geographic Risk Assessment Methodology; (vii) Training Policy; (viii) DFS Part 504 Procedures; (ix) Sanctions Standard Operating Procedures; and (x) Anti-Money Laundering Tuning Methodology. The Issuer continues to evaluate and enhance its sanctions screening system "Fircosoft" and transaction monitoring system "Actimize".

Tax

The Issuer is not subject to tax in the UAE, whether corporate or otherwise. The Issuer may be subject to tax in other jurisdictions where it operates.

Subsidiaries

As at 31 December 2021, the Issuer had 14 direct subsidiaries which included: Oman Insurance Company (PSC), Osool a Finance Company (PJSC), Mindscape FZ LLC, Mashreq Securities LLC, Mashreq Al-Islami Finance Company (PJSC), Injaz Services FZ LLC, Mashreq Capital (DIFC) Limited, Invictus Limited, Al Taqania Employment Services One Person LLC, Al Kaafat Employment Services One Person Company LLC, Shorouq Commodities Trading DMCC, IDFAA payment Services LLC, Mashreq for Business Process Support (Sole Person Company) and Mashreq Global Services (SMC private) Limited.

Oman Insurance Company P.S.C.

Oman Insurance Company P.S.C. ("**Oman Insurance Company**") is 64.46 per cent. owned by the Issuer and is the largest insurance company in the UAE. It provides a wide range of insurance products and services. As at 31 December 2021, it had total assets of AED 7,556 million, compared with total assets of AED 7,635 million as at 31 December 2020. In the year ended 31 December 2021, Oman Insurance Company contributed net income of AED 133 million to the Issuer (after non-controlling interests), compared with contributed net income of AED 124 million for the year ended December 2020.

Osool-A Finance Company (PJSC)

The Issuer owns 98 per cent. of the shares of Osool-A Finance Company (PJSC) ("**Osool**"), a consumer finance company. As at 31 December 2021, it had total assets of AED 164 million, compared with total assets of AED 163 million as at 31 December 2020. In the year ended 31 December 2021, Osool generated AED 2.8 million of net income, compared with net income of AED 1.2 million in the year ended 31 December 2020. Currently no new business is booked in Osool-A Finance Company.

Mindscape FZ-LLC

The Issuer owns 100 per cent. of the shares in Mindscape FZ-LLC ("**Mindscape**"), which provides technology solutions and support to the Issuer and its subsidiaries. As at 31 December 2021, Mindscape had total assets of AED 1,905 million, compared with total assets of AED 2,134 million as at 31 December 2020. In the year ended 31 December 2021, Mindscape generated net income of AED 11.2 million (after non-controlling interests), compared with a AED 7.9 million in the year ended 31 December 2020.

Mashreq Securities LLC

The Issuer owns 99.98 per cent. of the shares in Mashreq Securities LLC ("**Mashreq Securities**"), a securities brokerage which is authorised to trade on the Dubai Financial Market and Abu Dhabi Finance Market. As at 31 December 2021, Mashreq Securities had total assets of AED 63 million, compared with total assets of AED 68 million as at 31 December 2020. In the year ended 31 December 2021, Mashreq Securities generated a net loss of AED 1.3 million (after non-controlling interests), compared with net loss of AED 3.4 million in the year ended 31 December 2020.

Mashreq Al-Islami Finance Company (PJSC)

The Issuer owns 99.8 per cent. of the shares of Mashreq Al Islami Finance Company (PJSC) which provides *Shari'a*-compliant finance for personal consumer and commercial purposes. As at 31 December 2021, it had assets of AED 1,275 million compared with total assets of AED 1,235 million as at 31 December 2020 and made a net profit of AED 40 million (after the non-controlling interest) compared with AED 7.9 million in the year ended 31 December 2020.

Mashreq Capital (DIFC) Limited

The Issuer owns 100 per cent. of the shares in Mashreq Capital (DIFC) Limited ("**Mashreq Capital**") which runs fixed income and equities funds in the DIFC. As at 31 December 2021, Mashreq Capital had total assets of AED 26 million.

Injaz Services FZ LLC

The Issuer owns 100 per cent. of the shares in Injaz Services FZ LLC ("**Injaz**"), which is registered in the Dubai Outsourcing Zone and acts as the business processing outsourcing unit of the Issuer.

Invictus Limited

The Issuer owns 100 per cent. of shares of Invictus Limited, a special purpose vehicle incorporated in the Cayman Islands. As at 31 December 2021, Invictus Limited had assets of AED 892 million.

Al Kaafat Employment Services One Person Company LLC

The Issuer owns 100 per cent. of the shares of Al Kaafat Employment Services One Person (LLC) (formerly known as Al Kafaat Employment Services (LLC)), which provides employment services, such as secretarial, sales, telephonic, answering service, data processing, data entry, collections, recovery and marketing services. As at 31 December 2021, the company had assets of AED 2.4 million.

Al Taqania Employment Services One Person Company LLC

The Issuer owns 100 per cent. of the shares in Al Taqania Employment Services One Person Company LLC (formerly known as Al Taqania Employment Services (LLC)), which provides employment services such as secretarial, sales, telephonic, answering service, data processing, data entry, collections, recovery and marketing services. As at 31 December 2021, the company had assets of AED 10 million.

Shorouq Commodities Trading DMCC

The Issuer owns 100 per cent. of the shares of Shorouq Commodities Trading DMCC, a trading company incorporated in the DMCC free zone. Primary activities of the company include trading of refined oil, petrochemicals, steel and metal products. As at 31 December 2021, the company had assets of AED 272 million.

IDFAA payment Services LLC

The Issuer owns 100 per cent. of the shares of IDFAA Payment Services LLC which provides payment services for the Issuer.

Mashreq for Business Process Support (Sole Person Company)

The Issuer owns 100 per cent. of the shares of Mashreq for Business Process Support (Sole Person Company), which provides employment services in Egypt.

Mashreq Global Services (SMC private) Limited

The Issuer owns 100 per cent. of the shares of Mashreq for Business Process Support (Sole Person Company), which provides employment services in Pakistan.

Associate

As at 31 December 2021, the Issuer had one Associate which is Emirates Digital Wallet LLC.

The Issuer owns 23.22 per cent. of the shares of Emirates Digital Wallet LLC, which provides digital wallet services in the UAE.

Joint Venture

As at 31 December 2021, the Issuer had one Joint Venture which is Noon Digital Pay LLC.

The Issuer owns 51.00 per cent. of the shares of Noon Digital Pay LLC, which provides digital wallet services in the UAE.

Recent Developments

The following information provides an update as to the Issuer's financial performance as at, and for the three month period ended 31 March 2022 and contains financial information from the Issuer's unaudited consolidated interim financial information as at, and for the three month period ended 31 March 2022.

The Issuer's total assets as of 31 March 2022 were AED 182,581 million, compared to AED 177,054 million as of 31 December 2021, representing an increase of 3.1 per cent. This was primarily as a result of an increase in loans and advances.

The Issuer's cash and balances with central banks as of 31 March 2022 were AED 17,281 million, compared to AED 17,507 million as of 31 December 2021, representing a decrease of 1.3 per cent.

The Issuer's deposits and balances due from banks as of 31 March 2022 were AED 31,657 million, compared to AED 28,805 million as of 31 December 2021, representing an increase of 9.9 per cent.

The Issuer's other financial assets (net) as of 31 March 2022 were AED 25,146 million, compared to AED 26,719 million as of 31 December 2021, representing a decrease of 5.9 per cent.

The Issuer's other financial assets measured at amortised cost (net) as of 31 March 2022 were AED 10,749 million, compared to AED 10,278 million as of 31 December 2021, representing an increase of 4.6 per cent.

The Issuer's loans and advances and Islamic financing and investment products measured at amortised cost (net) as of 31 March 2022 were AED 86,295 million compared to AED 81,486 million as of 31 December 2021, representing an increase of 5.9 per cent. This was primarily as a result of growth in corporate loans and in retail banking products.

The Issuer's customers' deposits (including Islamic deposits) as of 31 March 2022 were AED 104,228 million, compared to AED 101,483 million as of 31 December 2021, representing an increase of 2.7 per cent.

The Issuer's net interest income and income from Islamic products net of distribution to depositors for the three months ended 31 March 2022 were AED 829 million, compared to AED 697 million for the three months ended 31 March 2021, representing an increase of 18.8 per cent. This was primarily as a result of growth in loans, higher current account balances in deposits supported by higher interest rates compared to 2021.

The Issuer's profit for the three months ended 31 March 2022 was AED 630 million, compared to AED 64 million for the three months ended 31 March 2021, representing an increase of 878.6 per cent. This was primarily the result of higher net interest income and lower impairment allowances for the three months ended 31 March 2022.

MANAGEMENT AND EMPLOYEES

Board of Directors

The Issuer operates under the direction of a Board of Directors which meets every quarter. The Board of Directors comprises seven elected members and is vested with the powers to manage the Issuer and conduct its business in accordance with its objects and with Federal Law No. 2 of 2015, as amended, concerning commercial companies of the UAE, the Issuer's articles of association and resolutions of the shareholders. Two of the seven directors are independent directors who are not related to the major shareholders of the Issuer or the Chairman. All directors are non-executive directors. The Board of Directors is elected as a body by the shareholders in an ordinary general meeting for a term of three years and each Director is eligible for re-election upon the expiration of that term. The Chairman and the Vice Chairman of the Issuer are elected by the Board of Directors. The Board of Directors appoints a Chief Executive Officer who is responsible for implementing board resolutions and managing the day-to-day business of the Issuer, although the overall responsibility for the direction and strategy of the business of the Issuer remains vested in the Board of Directors.

The following table sets forth the names of the members of the Issuer's Board of Directors:

Name	Position
1. Abdul Aziz Abdulla Al Ghurair	Chairman
2. Ali Rashid Ahmed Lootah	Vice Chairman
3. Rashed Saif Ahmad Al Ghurair	Director
4. Rashed Saif Saeed Al Jarwan Al Shamsi	Director
5. John Iossifidis…………...	Director
6. Iyad Malas..	Director
7. Saeed Saif Al Ghurair	Director

Detailed below is brief biographical information on the members of the Issuer's Board of Directors.

H.E. Abdul Aziz Abdulla Al Ghurair

His Excellency, Abdul Aziz Al Ghurair, is the Chairman of the Board of Directors of the Issuer. Prior to his election as Chairman, Mr Abdul Aziz Abdulla Al Ghurair held the position of Chief Executive Officer and Director of the Issuer since 1991. He is also a member of the Board of Directors of Abdullah Al Ghurair Group of Companies. His Excellency holds an honours degree in Industrial Engineering from California Polytechnic State University.

Mr. Ali Rashid Ahmed Lootah

Mr. Ali Rashid Ahmed Lootah has been a Director of the Issuer since 1996. He is a prominent member of a Dubai business family. Mr. Ali Rashid Ahmed Lootah is a Civil Engineering graduate from Clarkson University in the United States, Vice Chairman of the Board of Directors of the Issuer, Chairman of the Board Risk Committee and member of the Board Credit Committee and member of the Board Nomination and Compensation Committee of the Issuer. Mr. Ali Rashid Ahmed Lootah is a Board member of Dubai World and was the Chairman of the Board of Directors of Nakheel PJSC until January 2020.

Mr. Rashed Saif Ahmed Al Ghurair

Mr. Rashed Saif Ahmed Al Ghurair has been a Board member of the Issuer since 2013. He is also a member of the Board Risk Committee of the Issuer. Mr. Rashed Saif Ahmed Al Ghurair also holds the following positions: Chairman of Taghleef Industries and Director at Saif Al Ghurair Group.

Mr. Rashed Saif Saeed Al Jarwan Al Shamsi

Mr. Rashed Saif Saeed Al Jarwan Al Shamsi has been a Director of the Issuer since July 2013. He holds a Bachelor of Science degree in Petroleum and Natural Gas Engineering from Pennsylvania State University in the United States. He is the Chairman of the Board Credit Committee, a member of the Board Audit Committee and a member of the Board Remuneration and Compensation Committee. Mr. Rashed Saif

Saeed Al Jarwan Al Shamsi also holds the following positions: Vice Chairman of Dana Gas PJSC, Board member at Emarat, Board member at Oman Insurance PJSC, Board member at DIFCA and Board member at Al Ghurair Holding Ltd.

Mr. John Iossifidis

Mr. John Iossifidis joined the Board of Directors of the Issuer in 2021. He holds a Master of Business Administration ("**MBA**") degree from Monash University, Australia. He is the Chairman of the Board Audit Committee and a member of the Board Risk Committee of the Issuer. Mr. John Iossifidis formerly served as the CEO of Noor Bank and also holds the following positions: member of the Australian Institute of Company Directors, member of the Australian Business Council, Fellow of the Australian Institute of Bankers and CEO of AGI.

Mr. Iyad Malas

Mr. Iyad Malas joined the Issuer's Board of Directors in 2021. He holds an MBA degree from George Washington University in the United States. He is a member of the Board Credit Committee and a member of the Board Audit Committee at Mashreq Bank. Mr. Iyad Malas formerly served as the CEO of Majid Al Futtaim Holding and also holds the following positions: CEO of Al Ghurair Group LLC and Chairman of the Board of Beco VC fund.

Mr. Saeed Saif Al Ghurair

Mr. Saeed Saif Al Ghurair joined the Issuer's Board of Directors in 2021 and holds a degree in Mechanical Engineering from Northeastern University, Boston, in the United States. He is the Chairman of the Board Nomination and Compensation Committee at the Issuer. Mr. Saeed Saif Al Ghurair also holds the following positions: CEO of Al Ghurair Commodities and Board member of Al Ghurair Group LLC.

The business address of the Directors of the Issuer is Mashreqbank Global Headquarters, Al Umniyati Street, Burj Khalifa Community, P.O. Box 1250, Dubai, UAE.

Conflicts

There are no potential conflicts of interest between the duties to the Issuer of the Directors of the Issuer listed above and their private interests or duties.

Management Team

Management of the day-to-day operations of the Issuer is the responsibility of the Management Team. The Management Team meets regularly to discuss the business strategy, business plans and performance, investment strategy and operations of the Issuer and submits recommendations to the Board of Directors.

The following table sets forth the names of the senior officers of the Issuer who comprised the Management Team as at the date of this Prospectus.

Name	**Position**
Ahmed Abdelaal	Group Chief Executive Officer
Ali Raza Khan	Group Head of Corporate Affairs
Tarek El Nahas	Group Head of International Banking
Fernando Morillo Lopez	Group Head of Retail Banking
Nasser A. Paracha	Group Head of Internal Audit
Hammad Naqvi	Group Head of Treasury and Capital Markets
Roy Philip Sebastian	Group Chief Credit Officer
Anuratna Chadha	Group Chief Risk Officer
Joel D Van Dusen	Group Head of Corporate and Investment Banking
Alexander Raiff	Group Head of Technology, Transformation and Information

Name	Position
Mark Edwards	Group Head of Operations
Scott Ramsay	Group Head of Compliance and Bank Money Laundering Reporting Officer
Rania Nerhal	Chief Client Experience and Conduct Officer – Client Experience and Conduct Group and Acting Group Head of Marketing and Corporate Communications
Marouf Mohamed Shweikeh	Group General Counsel

None of the members of the Management Team is related to the major shareholders or the Chairman. Detailed below is brief biographical information on the members of the Management Team of the Issuer.

Mr. Ahmed Abdelaal – Group Chief Executive Officer

Mr. Ahmed Abdelaal is an alumnus of London Business School and holds an MBA. He joined the Issuer in November 2017. Prior to joining the Issuer, he was the Regional Head of Corporate Clients Coverage MENAT and Head of Commercial Banking UAE at HSBC. Prior to that he was Regional Head, Corporate Banking and Structured Finance, Large Corporate MENAT. He had been with HSBC for over a decade in progressively senior roles before joining the Issuer. He has also worked for ABN Amro, American Express and Arab Bank.

Mr. Ali Raza Khan – Group Head of Corporate Affairs

Mr. Ali Raza Khan joined the Issuer in 1980. He holds a Bachelor of Science degree from Kanpur University. He became a member of the Institute of Chartered Accountants of India in 1978. During the past 41 years Mr. Khan has served in different positions within the Issuer including as Operations Manager, Central Account Division Manager and Head of the Human Resources Division. As Group Head of Corporate Affairs, he is responsible for finance, planning, accounts, human resources, procurement and administrative functions in the Issuer.

Mr. Tarek El Nahas – Group Head of International Banking

Mr. Tarek El Nahas joined the Issuer in 2020. He holds a Bachelor of Arts degree in Economics and Political Science from the American University in Cairo and a Master of Science degree in Economics from the London School of Economics.

Mr. Fernando Morillo Lopez – Head of Retail Banking

Mr. Fernando Morillo Lopez joined the Issuer in 2021. He holds a General Management Programme degree from Harvard Business School, an MBA from Instituto de Empresa in Madrid and a Bachelor of Science degree in Aeronautical Engineering from Universidad Politécnica de Madrid.

Mr. Nasser A. Paracha – Group Head of Internal Audit

Mr Nasser A. Paracha joined the Issuer in October 1995. He is an alumnus of Harvard Business School ("**HBS**") in the United States, having completed a General Management Programme at HBS and has a Bachelor's degree in Operational Research and Computing from the University of Leeds in the United Kingdom. During his tenure, Mr. Nasser A. Paracha served in different positions within the Issuer including as Compliance Manager, Head of Compliance and Head of Audit. Prior to joining the Issuer, he worked with Deutsche Bank AG in Karachi (Pakistan), as Assistant Manager – Corporate Banking.

Mr. Hammad Naqvi – Group Head of Treasury and Capital Markets

Mr. Hammad Naqvi joined the Issuer in 1996. He holds an MBA degree from the Institute of Business Administration in Karachi. Prior to joining the Issuer in 1996, he was Head of Treasury with Bank of America, Pakistan and he was also posted as Treasurer of Bank of America, Poland. He also spent two years in the merchant banking division of ANZ Grindlays in Pakistan.

Mr. Roy Philip Sebastian – Group Chief Credit Officer

Mr. Roy Philip Sebastian joined the Issuer in 2019. He holds a Master's degree in Commerce and is a Certified Associate of the Indian Institute of Bankers. He is a seasoned banking professional with over 30 years of work experience specialising in Credit Risk Management and Corporate Banking. Prior to joining the Issuer, he spent over 21 years with HSBC Group in the Middle East. His last position held was as Regional Head of Credit Approval, Wholesale Credit MENAT, HSBC.

Mr. Anuratna Chadha – Group Chief Risk Officer

Mr. Anuratna Chadha joined the Issuer in 2019. He has an MBA from the Indian Institute of Management, Ahmedabad and holds a Bachelor's degree in Commerce from Shri Ram College of Commerce, Delhi. His banking career spans over 30 years, primarily in risk management, wholesale and corporate banking across Singapore, Japan, India and South Africa.

Mr. Alexander Raiff – Group Head of Technology, Transformation and Information

Mr. Alexander Raiff joined the Issuer in 2022. He has an MBA in International Business from Pforzheim University in Germany and Nanyang Technological University in Singapore and a Master of Science degree in Electrical Engineering from the Karlsruhe Institute of Technology in Germany. Mr Alexander Raiff has over 30 years of experience as a technology professional, notably acting as Chief Information Officer of Abu Dhabi Commercial Bank from 2012 to 2020. More recently, he has been an advisor and angel investor for various digital banking, fintech/regtech and crypto asset platforms. Alexander Raiff was also at DaimlerChrysler Financial Services and Mercedes Benz from 2003 to 2012, in each case acting as Chief Information Officer across their offices in Europe, China and Japan.

Mr. Mark Edwards – Group Head of Operations

Mr. Mark Edwards joined the Issuer in 2020. He is a Business Management graduate from the University of Stirling in the United Kingdom and the Executive Management programme from INSEAD (France and Singapore). Mr. Mark Edwards has over 25 years of experience in business operations and with international and regional baking experience across banking operations, shared services, business transformation, project management and corporate integration.

Mr. Scott Ramsay – Group Head of Compliance and Bank Money Laundering Reporting Officer

Mr. Scott Ramsay joined the Issuer in 2020. He has a Master of Laws honours degree from Victoria University of Wellington in New Zealand. Mr Scott Ramsay has over 15 years of banking and senior management experience, with an extensive background in areas of compliance, financial crimes and anti-money laundering, among others.

Ms. Rania Nerhal – Chief Client Experience and Conduct Officer – Client Experience and Conduct Group

Ms. Rania Nerhal joined the Issuer in 2018. She has a Bachelor's degree in Economics from the Faculty of Commerce and Foreign Trade, Cairo, Egypt. She has more than 25 years of experience in client relationship management in the banking industry. Before joining the Issuer, she held executive management roles, such as Head of Client Corporate Coverage and Head of Large Corporates and Public Sector at HSBC, and at Egyptian American Bank, Commercial Bank of Dubai and Al Ahli Bank of Kuwait.

Mr. Marouf Mohamed Shweikeh – Group General Counsel

Mr. Marouf Mohamed Shweikeh joined the Issuer in 2021. He has a Master in Laws in International Commercial Law from the University of Sussex, United Kingdom. Mr. Marouf Mohamed Shweikeh has over 25 years of legal experience. His functional expertise covers areas such as lending transactions, new market entry and due diligence, legally focused product development, regulatory projects, privatisation and commercial litigation, in addition to arbitration and mediation.

Conflicts

There are no potential conflicts of interest between the duties to the Issuer of the members of the Management Team listed above and their private interests or duties.

Board Remuneration

The members of the Board of Directors of the Issuer did not receive any remuneration and benefits in kind during the year ended 31 December 2021 as the Issuer declared a loss in the financial year 2020.

Employees

As at 31 December 2021, the Issuer employed 4,903 full-time staff. The Issuer has not experienced any strikes since its establishment and considers its relationship with its employees to be good.

The Issuer has a variable pay scheme for all employees pursuant to which a performance bonus is awarded to top performers based on annual performance appraisals. The bonus paid is a function of the performance of the Issuer, the performance of the respective unit for which the individual works and the individual's own performance.

The Issuer has incentive plans for sales staff in various business segments. These incentives are paid on each sale booked, covering personal loans, credit cards and investment products; in most cases, the Issuer utilises a stepped incentive structure.

Emiratisation

The Issuer supports the UAE government's mandate to gradually nationalise its employee work force. In order to move towards fulfilling this commitment, the Issuer gives first priority to UAE nationals at all levels within the Issuer, subject to the availability of requisite talent in the market. In line with current UAE national work force demographics, entry-level positions are generally filled by UAE nationals. Recruiting, developing and retaining UAE nationals is a focus area for the Issuer. See further "*The United Arab Emirates Banking System and Prudential Regulation – Characteristics of the Banking System – Expatriate workforce*".

Transactions with Related Parties

As at 31 December 2021, certain related parties (Directors, key management personnel) and major shareholders of the Issuer and companies of which they are principal owners were customers of the Issuer in the ordinary course of business and, in the aggregate, had outstanding customers' deposits of AED 1,260 million (compared with AED 1,169 million as at 31 December 2020), loans and advances, including Islamic financing, in the amount of AED 2,935 million (compared with AED 3,648 million as at 31 December 2020) and letters of credit, guarantees and acceptances in the amount of AED 1,860 million (compared with AED 1,445 million as at 31 December 2020). All such transactions were made on substantially the same terms, including as to interest rates and collateral, as loans prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

Corporate Governance

The Issuer has in place corporate governance rules based on industry best practices, the UAE Commercial Companies Law No. 32 of 2021, UAE Central Bank regulations and the UAE Securities and Commodities Authority code on corporate governance.

The Issuer takes its corporate governance obligations seriously and to that end the Board of Directors has appointed the following committees as an important element in the overall corporate governance framework of the Issuer:

- The Audit Committee of the Board, consisting of three non-executive directors;
- The Board Risk Committee, consisting of three non-executive directors;
- The Board Credit Committee, consisting of three non-executive directors; and
- The Board Nomination and Compensation Committee, consisting of three non-executive directors.

The Board has appointed several committees consisting of the CEO and senior management:

- The Executive Management Committee (ExCo);
- The Asset-Liability Committee (ALCO);
- The Group Capital Allocation Committee (GCAC);
- The Investment Committee (IC);
- The Regulatory Compliance Committee (RCC);
- The Human Resource Committee (HRC);
- The Enterprise Risk Committee (ERC); and
- The Information Security Committee (ISC).

Additionally, the Issuer has well-established policies and procedures documented in various manuals and supported by detailed standard operating procedures. The Issuer has a written code of conduct to be followed by all employees (including senior management) and adherence to it is monitored closely.

THE UNITED ARAB EMIRATES BANKING SYSTEM AND PRUDENTIAL REGULATION

Overview

According to data published by the UAE Central Bank, as at 31 November 2021 there were a total of 48 commercial banks (21 locally incorporated commercial banks and 27 foreign commercial banks) licensed to operate in the UAE. As a result, the UAE could be, and has historically been, viewed as an over-banked market, even by regional standards, and there has traditionally been little impetus for consolidation. However, the consummation of the merger of the National Bank of Abu Dhabi and First Gulf Bank on 30 March 2017, which created First Abu Dhabi Bank (the "**Merger**"), one of the largest banks in the MENA region by assets, stimulated further movement towards greater consolidation among UAE banks (see "*Characteristics of the Banking System – Historic lack of consolidation*" below).

The UAE's membership of the World Trade Organisation ("**WTO**") will likely require greater economic liberalisation, but it is unclear to what extent this will encourage foreign banks to further expand their presence in the market. In the long term, however, it is likely to lead to increased competition, which should spur consolidation, both within the UAE and across the region generally.

Within the UAE, the financial sector was estimated to have contributed approximately 8.2 per cent. of real GDP in 2020 (*source*: FCSA National Account information for 2010-2020).

As a banking regulator, the UAE Central Bank, established in 1980, has grown in stature over the years and is the governing body that regulates and supervises all banks operating in the UAE. The UAE Central Bank monitors banks through its Banking Supervision and Examination Department. It conducts reviews of banks periodically based on the risk profile of each bank. It also reviews all of the returns submitted by the banks to the UAE Central Bank.

Historically, the UAE Central Bank does not act as a "lender of last resort". Instead, this role tends to fall on the individual Emirs of each Emirate. However, the Marginal Lending Facility allows non-Islamic UAE banks to use certain tradeable assets or foreign exchange as collateral to access UAE Central Bank liquidity overnight in order to help their liquidity management (see "*The United Arab Emirates Banking System and Prudential Regulation – Recent Trends in Banking – Liquidity*" below).

COVID-19

In response to the COVID-19 outbreak (see "*Risk Factors – Risks related to the Issuer's business activities and industry – Impact of recent macroeconomic and financial market conditions*"), effective from 15 March 2020, the UAE Central Bank has implemented the TESS, which includes a range of measures aimed at mitigating the economic effects of COVID-19 on the UAE economy. The TESS and other accompanying stimulus measures include (in addition to reducing interest rates as discussed in such risk factor):

TESS

- allowing banks operating in the UAE access to funding, against collateral, extended at zero cost by the UAE Central Bank until 30 June 2022 under the TESS recovery programme, the proceeds of which are to be used by UAE banks to grant new financing to private sector corporate customers and retail clients;

- allowing banks operating in the UAE access to funding, against collateral, extended at zero cost by the UAE Central Bank until 31 December 2021 under the TESS deferral programme, the proceeds of which are to be used by UAE banks to offer payment deferral relief on loans or financing to private sector corporate customers and retail clients;

- whilst keeping the existing 2.50 per cent. capital conservation buffer in place, allowing banks to utilise 60 per cent. of their capital conservation buffer without supervisory consequences until 30 June 2022;

- allowing banks that are subject to the LCR to fall below the regulatory LCR requirement of 100 per cent., provided that their LCR is higher than or equal to 70 per cent., while other banks are able to fall below the regulatory Eligible Liquid Assets Ratio ("**ELAR**") requirement of 10 per cent., provided that their ELAR is higher or equal to 7 per cent., with such changes to the LCR and ELAR applicable until 30 June 2022;

- allowing banks that are subject to NSFR to fall below the regulatory NSFR requirement of 100 per cent., provided that their NSFR is higher than or equal to 90 per cent., while other banks are allowed to go above the regulatory Advances to Stable Resources Ratio ("**ASRR**") requirement of 100 per cent., provided that their ASRR is lower than or equal to 110 per cent., with such changes to the NSFR and ASRR being applicable until 30 June 2022 for all banks operating in the UAE; and

- expecting banks to leave unchanged and not downgrade the IFRS 9 staging and classification of customers who are receiving temporary relief linked to the TESS and are temporarily and mildly impacted by COVID-19, thereby having no significant impact on their creditworthiness. In the case of customers who are receiving temporary relief linked to the TESS but are expected to be significantly impacted by COVID-19 in the long term, thereby having a significant impact on their creditworthiness, expecting banks to downgrade such customers to either Stage 2 or Stage 3 in accordance with IFRS 9.

Further measures to support the UAE economy in response to COVID-19

- decreasing the UAE Central Bank's minimum reserve requirement for all current, call and savings deposits from 14 per cent. to 7 per cent.;

- postponing the planned implementation of certain Basel III capital requirements in a phased manner from 30 June 2021 to 30 June 2022; and

- allowing banks to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter will allow any increase in IFRS9 provisioning compared to 31 December 2019 to be partially added back to regulatory capital. This will allow IFRS 9 provisions to be gradually phased in over a five-year period until 31 December 2024.

Characteristics of the Banking System

Historic lack of consolidation

The UAE may be, and has historically been, seen as being over-banked with 48 banks (comprising 21 locally incorporated banks and 27 foreign banks) licensed to operate inside the UAE as at 30 November 2021 (*source*: UAE Central Bank Statistical Bulletin November 2021), serving a population estimated to be in the region of approximately 9.3 million people as at the end of 2020 (*source*: OPEC Annual Statistical Bulletin 2021). Traditionally there has been little impetus for consolidation, with the federal structure of the UAE encouraging, to some extent, the fragmented nature of the banking sector, with the individual Emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also historically hampered the process of consolidation. As a result, during the period between the October 2007 merger of Emirates Bank International P.J.S.C. and National Bank of Dubai P.J.S.C. which created Emirates NBD and 2017 there was very limited merger activity domestically in the sector. However, following the Merger and the acquisition of Noor Bank P.J.S.C by Dubai Islamic Bank P.J.S.C in January 2020, commentators have suggested that the UAE may see more consolidation of the banking sector in order to improve profitability and reduce inefficiencies.

While the anticipated attempts at consolidation would further reduce the level of concentration in the domestic banking sector, they would also likely lead to a significant alteration of the competitive environment with fewer, larger locally incorporated banks competing for the larger financing transactions in the region with the foreign banks, which have tended to have comparatively larger franchises, with greater infrastructure and resources with which to absorb capital costs, such as IT system development.

Going forward, the advent of WTO liberalisation should allow greater competition from foreign banks, both from new entrants to the market and from existing players expanding their operations, which may eventually result in more mergers, with the possibility of creating banks with pan-Gulf franchises.

Domestic focus

The UAE-incorporated banks are predominantly focused on the domestic market, but a number have small operations overseas and are showing growing interest in cross-border business, a trend which is likely to continue in the event of further merger activity in the sector.

With a large number of banks competing for a limited number of wholesale lending opportunities, most banks historically turned to retail banking, a previously untapped market. However, increasing competition in this area has gradually eroded margins and encouraged a relaxation of lending criteria. As the market has been tested only to a limited extent under adverse conditions, it is difficult to predict the future likelihood of asset quality problems.

Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks, kiosks and telephone and internet banking services. As a consequence, IT costs have been a prominent feature of many UAE banks' expenses in addition to employee costs.

Limited foreign ownership

In 1987, the UAE federal government placed a freeze on new foreign banks opening operations in the UAE. At the same time, existing foreign banks were limited to a maximum of eight branches, which restricted their ability to develop any retail potential. However, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, were awarded licences by the UAE Central Bank following an agreement to permit market access to banks of GCC state origin in line with continuing efforts in regional integration.

During 2002, the Government of Dubai issued a decree establishing the Dubai International Financial Centre (the "**DIFC**"). The DIFC, located in the Emirate of Dubai, is a free trade zone and financial services centre focusing on private banking, asset management, investment banking, re-insurance activities, Islamic finance, securities trading and back office operations. The DIFC has its own civil and commercial laws and has been granted authority to self-legislate in civil and commercial cases. The opening of the DIFC has enabled international banks to establish a presence and compete in the wholesale banking market, and this has seen new entities entering the market place.

In 2013, the Government sought to replicate the success of the DIFC by announcing its intention to establish the Abu Dhabi Global Market (the "**ADGM**") in Abu Dhabi as an international financial free zone with its own legal framework (closely based on English common law). The ADGM became operational in mid-2015 and, as at the date of this Prospectus, it remains unclear to what extent this will impact the competitive and regulatory landscape in the domestic banking sector.

Federal Law No. 14 of 2018 (which entered into force with effect from 23 September 2018) (the "**2018 Federal Law**") amended the minimum permissible shareholding by UAE nationals in UAE banks to 60 per cent. As at 31 December 2021, 97 per cent. of the Issuer's shares are owned by UAE nationals.

Exposure to the oil sector

With much of the economy directly or indirectly dependent on the oil sector, UAE banks are potentially vulnerable to business erosion during long periods of low oil prices (see "*Risk Factors – Risk Factors relating to the United Arab Emirates – The UAE's economy is highly dependent upon its oil revenue*"). In particular, oil revenues tend to drive levels of liquidity and government infrastructure investment. Gradually, however, private non-oil sectors are gaining ground and the UAE economy is becoming less susceptible to oil price movements.

Islamic banking

Shari'a (Islamic) law forbids the charging of interest on any financial transaction. A number of banks have developed in the Islamic world to serve customers who wish to observe this principle. These institutions offer a range of products which, whilst broadly corresponding with conventional banking transactions, are structured in a way which avoids the application of interest. The UAE is home to numerous institutions offering Islamic banking and financial products. Such institutions include: Dubai Islamic Bank PJSC, Abu Dhabi Islamic Bank PJSC, Emirates Islamic Bank PJSC, Ajman Bank, Sharjah Islamic Bank PJSC, Dubai Islamic Insurance & Reinsurance Company (AMAN), Islamic Arab Insurance Co. (PSC) (Salama), Tamweel and Amlak Finance. In addition, conventional financial institutions often offer *Shari'a*-compliant products. In addition, the majority of local and international conventional financial institutions that operate in the UAE also offer *Shari'a*-compliant products through their Islamic windows. The number of Islamic banks continues to increase, with both new entrants to the market and existing conventional banks recasting themselves as Islamic banks.

Legal environment

There are three primary sources of law in the UAE: (i) federal laws and decrees; (ii) local laws; and (iii) *Shari'a* (Islamic) law. In addition, Emiri decrees can be issued by the Rulers of each of the Emirates which, when issued, have full legal effect and operation in such Emirate. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler of a given Emirate or local government will apply his or its own rules, regulations and practices.

Supervision of banks

The main piece of legislation applicable to the banking system is the 2018 Federal Law which repeals Federal Law No. 10 of 1980 concerning the status of the UAE Central Bank. The UAE Central Bank's primary roles are to formulate and implement banking, credit, monetary and fiscal policy and to be responsible for ensuring price and currency stability with free convertibility to foreign currencies. It is also the "bank for banks" within the UAE, although it is not the "lender of last resort". In the event of a bank experiencing financial difficulties or a solvency crisis, rescue funds – such as long-term liquidity or equity support – have historically come from the Emirate in which the institution is based. However, in the event of a run on the currency or a major banking crisis, it is likely that the UAE federal government would ultimately stand as de facto defender of the currency and the "lender of last resort".

The 2018 Federal Law grants the UAE Central Bank powers to:

- draw up and implement monetary policy;
- exercise currency issuance;
- organise licensed financial activities, establish the foundations for carrying them on, and determine the standards required for developing and promoting prudential practices in accordance with the provisions of the 2018 Federal Law and international standards;
- set up appropriate regulations and standards for protection of customers of licensed financial institutions;
- monitor the credit condition in the UAE, in order to contribute to the achievement of balanced growth in the national economy;
- manage foreign reserves to maintain, at all times, sufficient foreign currency assets to cover the monetary base as per the provisions of the 2018 Federal Law; and
- regulate, develop, oversee and maintain soundness of the financial infrastructure systems in the UAE.

Historically, income from overseas investments has been used to fund fiscal deficits, obviating the need for the UAE Central Bank to issue UAE federal government debt. However, the UAE Central Bank does issue Monetary Bills ("**M-Bills**") to UAE banks via auction, denominated in UAE dirhams, in order to absorb excess liquidity rather than to meet a specific funding need. The M-Bills programme was launched in January 2021 to replace UAE Central Bank Certificates of Deposit. The secondary market in M-Bills is currently developing but they can be used as collateral for UAE dirham funding from the UAE Central Bank at any time. The UAE dirham is linked to the International Monetary Fund's Special Drawing Right. However, the U.S. dollar is the intervention currency and, in practice, the UAE dirham is pegged to the U.S. dollar. This pegged exchange rate has been in place since the 1980s and has proved to be resilient both to political tensions in the region and to fluctuations in oil prices. However, see "*Risk Factors – Risk Factors relating to the United Arab Emirates – Foreign exchange movements or any alteration to, or abolition of, the foreign exchange "peg" of the UAE dirham to the U.S. dollar may adversely affect the Issuer's profitability*".

The UAE Central Bank is also responsible for regulating financial institutions in relation to money laundering controls and enforcing Federal Law No. 20 of 2018 regarding the procedures for Anti-Money Laundering and Combating the Financing of Terrorism and Illicit Organisations. Pursuant to this, the UAE has established the National Committee to Counter Money Laundering, Combating the Financing of Terrorism and Financing of Illegal Organisations which is responsible for coordinating policy and systems on anti-money laundering and the combating of terrorism financing and assessing the effectiveness of such policies and systems and the representation of the UAE in international forums on these matters. Federal Law No. 20 of 2018 also recommends the establishment of an independent "Financial Information Unit" within the UAE Central Bank to receive and investigate reports submitted by financial institutions and corporate entities regarding suspected illicit financial activity.

Although the UAE Central Bank is responsible for regulating all banks, exchange houses, investment companies and other financial institutions in the UAE, the Dubai Financial Services Authority regulates all banking and financial services activities in the DIFC, while the ADGM Financial Services Regulatory Authority regulates activity in the financial services sector in the ADGM. The UAE Central Bank has also been growing in stature as a banking supervisor. However, it is hampered in its role by the level of legal autonomy afforded to the individual Emirates, which at times makes it difficult to enforce directives uniformly across the banking sector.

Lack of developed capital markets

The absence of mature bond or equity markets in the UAE means that banks have often shouldered the burden of long-term financing. This has tended to create a maturity mismatch in their balance sheets, as most of their liabilities are short-term customer deposits. Although the two stock markets, the Dubai Financial Market and the ADX (both of which were established in 2000), have grown over recent years and have benefited from the inclusion of the UAE in the MSCI Emerging Markets Index since 2014, they continue to experience bouts of volatility.

Nasdaq Dubai (formerly known as the Dubai International Financial Exchange) is a securities exchange located in the DIFC which commenced operations on 26 September 2005. In December 2009, the Dubai Financial Market announced its intention to acquire Nasdaq Dubai, with completion of the acquisition having occurred in July 2010. The Dubai Financial Market and the ADX were upgraded to the MSCI Emerging Markets Index with effect from 1 June 2014 which could lead to an increase in interest and investment from international institutional investors in the UAE.

Government involvement

There is a high degree of state involvement in the UAE banking sector. Most of the larger banks have some degree of government ownership. Privatisation, though advocated in principle, has been slow to manifest in practice. The state and its related entities are together the banking sector's largest customers, in terms of both deposits and project financing.

Expatriate workforce

An unusual feature of the UAE economy is its reliance on overseas labour, with expatriates making up approximately 83.3 per cent. of the workforce (*source*: FCSA Labour Force Survey 2019). The banking sector is no exception to this and expatriates are employed in the senior management of most of the major banks. This has brought expertise from more developed markets to the sector. However, the high level of expatriates in the UAE has been an increasing concern for the UAE federal government and, as part of a policy of "Emiratisation", banks were instructed, in 1999, to increase the percentage of UAE nationals on their payroll by at least 4 per cent. per annum. This policy has now been replaced by the UAE Cabinet Decree number 3/10/267 of 2015 dated 25 October 2015 (the "**Emiratisation Circular**"), which has introduced a scoring system which takes into account the employment and progression of Emirati employees in the organisation. The minimum threshold for Emirati employees for each institution is dependent on a number of factors. The Emiratisation Circular does not set any upper limit at which the policy would no longer be applicable. If UAE banks are not able to achieve their targets for recruiting and progressing UAE nationals through their organisation, they will be subject to penalties to be computed in accordance with a specific formula set out in the Emiratisation Circular.

Accounting standards

Since 1 January 1999, all UAE banks have been required to prepare their financial statements in accordance with IFRS (formerly International Accounting Standards (IAS)). Although this has led to a substantial improvement in disclosure standards, there remains some variability in the quality and depth of disclosure across the banking sector.

Structure of the banking system

Banking institutions in the UAE fall into a number of categories. Domestic commercial banks, also known as "national" banks, of which there were 22 as at 30 November 2021 (*source*: UAE Central Bank Statistical Bulletin November 2021), are required to be public shareholding companies with a minimum share capital of AED 40 million and must be majority owned by UAE nationals. Licensed foreign banks, of which there were 27 as at 30 November 2021 (*source*: UAE Central Bank Statistical Bulletin November 2021), need to demonstrate that at least AED 40 million has been allocated as capital funds for their operations in the UAE. "Financial institutions" (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities, but which are not permitted to accept funds by way of deposits) and financial and monetary intermediaries (money and stockbrokers) may also be licensed to operate within the UAE.

Recent Trends in Banking

Profitability

The performance of the UAE economy is influenced by oil prices, which directly affect fiscal revenues and hence determine the level of investment in government projects in the country. The high oil prices and strong economic conditions experienced in the UAE between 2004 and 2008 allowed UAE banks to expand significantly.

However, much of this growth focused on the real estate sector and equity financing which, in the context of the 2008 global financial crisis, represented a significant risk to the UAE banking system. Equity prices declined generally in the UAE from 2008 to 2011 in response to the global 2008 financial crisis but rebounded between 2012 and 2020, with the ADX's General Index increasing from 2,630.9 at 31 December 2012 to 5,045.3 at 31 December 2020, and the Dubai Financial Market index increasing from 1,662.5 at 31 December 2012 to 2,492.0 at 31 December 2020 (*source*: Bloomberg).

Liquidity

The UAE Central Bank closely monitors the level of liquidity in the banking system. It also requires that banks have in place adequate systems and controls to manage their liquidity positions, as well as contingency funding plans to cope with periods of liquidity stress.

Banks must also adhere to a maximum loan-to-deposit ratio of 100 per cent. set by the UAE Central Bank. In this context, loans comprise loans and advances to customers and interbank assets maturing after three months.

UAE banks are mostly funded through on-demand or time-based customer deposits made by private individuals or private sector companies. According to data made available by the UAE Central Bank, together, demand and time deposits constituted approximately 84.9 per cent. of total resident and non-resident deposits (excluding government deposits, commercial prepayments and borrowings under repurchase agreements) while resident and non-resident government deposits (including GRE deposits) and non-banking financial institutions constituted approximately 28.5 per cent. and 6.9 per cent., respectively, of total deposits of the UAE banking sector (excluding inter-bank deposits and bank drafts but including commercial prepayments and borrowings under repurchase agreements) as at 30 September 2021. Non-resident sources constituted approximately 12.5 per cent. of total deposits within the UAE banking sector (excluding inter-bank deposits and bank drafts but including commercial prepayments and borrowings under repurchase agreements) as at the same date (*source*: UAE Central Bank Statistical Bulletin September 2021).

In response to the global 2008 financial crisis, the UAE Central Bank announced a number of measures aimed at ensuring that adequate liquidity is available to banks operating in the UAE. In September 2008, the UAE Central Bank established an AED 50 billion liquidity facility which banks could draw upon subject to posting eligible debt securities as collateral. The liquidity facility was available only for the purpose of funding existing commitments. New lending was required to be based on growth in the customer deposit base.

In addition to these measures, the UAE federal government also provided AED 50 billion in deposits to UAE banks (as part of a larger AED 70 billion package) which, at the option of the banks, can be converted into Tier 2 capital in order to enhance capital adequacy ratios. A number of banks in the UAE exercised this option and converted the UAE federal government deposits made with them into Tier 2 capital.

In line with Basel III requirements, the UAE Central Bank has issued the UAE Central Bank Notice No. 33/2015 on liquidity requirements (which was issued by the UAE Central Bank on 27 May 2015 and which entered into force with effect from 1 July 2015) (the "**Liquidity Notice**") and which includes a set of qualitative and quantitative liquidity requirements for UAE banks. The qualitative requirements set out in the Liquidity Notice elaborate on the responsibilities of a UAE bank's board of directors and senior management as well as the overall liquidity risk framework. The new regulations are intended to ensure that liquidity risks are well managed at banks operating in the UAE and are in line with the Basel Committee's recommendations and international best practices. These requirements include the following:

Responsibilities of the board of directors:

- to bear ultimate responsibility for liquidity risk management within the relevant UAE bank;
- to be familiar with liquidity risk management with at least one board member having a detailed understanding of liquidity risk management; and
- to enable the clear articulation of liquidity risk tolerance in line with the relevant UAE bank's objectives, strategy and risk appetite.

Responsibilities of senior management:

- to develop strategies, policies and practices to manage liquidity risk in accordance with the liquidity risk tolerance set by the board of directors;
- to review the UAE bank's strategy and to report to the board of directors on regulatory compliance on a regular basis; and
- to manage liquidity risk in a prudent manner using all available liquidity risk management tools.

Liquidity risk framework:

The Liquidity Notice requires each UAE bank to have a robust liquidity risk framework which comprises the following elements:

- sound processes and systems to identify, measure, monitor and control liquidity risk in a timely and accurate manner;
- a robust liquidity risk management framework (which must be shared with the UAE Central Bank upon request) with limits, warning indicators, communication and escalation procedures;
- regular internal stress-testing of the portfolio for a variety of scenarios (both institution-specific and market-wide), with the results being communicated to the board of directors and the UAE Central Bank on request;
- incorporation of liquidity costs, benefits and risks into product pricing and approval processes;
- establishment of a forward-looking funding strategy with effective diversification of funding sources and tenors;
- setting of formal contingency funding plans which clearly set out strategies for addressing liquidity shortfalls in emergency situations (and which must be shared with the UAE Central Bank upon request);
- establishment of an adequate cushion of unencumbered, highly liquid assets as insurance against a range of liquidity stress scenarios; and
- a transfer pricing framework (which is commensurate with the bank's liquidity risk tolerance and complexity) developed to reflect the actual cost of funding.

The quantitative requirements set out in the Liquidity Notice are intended to ensure that each UAE bank holds a minimum level of liquid assets which allow it to sustain a short-term liquidity stress (in circumstances both specific to that bank and market-wide) as per the below.

	Ratio	Applicability Period
Basel III ratios..	LCR (LCR > = 100%)	1 January 2019 onwards
	NSFR (NSFR > = 100%)	1 January 2018 onwards

The LCR represents a 30-day stress scenario with combined assumptions covering both bank-specific and market-wide stresses. These assumptions are applied to contractual data representing the main liquidity risk drivers at banks to determine cash outflows within the 30-day stress scenario. The LCR requires that UAE banks should always be able to cover the net cash outflow with HQLAs at the minimum LCR determined by the UAE Central Bank. The Basel III accord requires that this minimum is 100 per cent., however, under the temporary relief measures provided by the UAE Central Bank under the TESS, the regulatory LCR limit has been decreased from 100 per cent. to 70 per cent. until 30 June 2022. The Liquidity Notice describes in detail eligible HQLAs for this purpose. See "*Risk Factors – Risks related to the Issuer's business activities and industry – Liquidity Risk*" and "*Description of the Issuer – Liquidity Risk Management*" for more information.

NSFR is a structural ratio that aims to ensure that banks have adequate stable funding to fund the assets on their balance sheets. It also requires an amount of stable funding to cover a portion of the relevant UAE banks' contingent liabilities. The NSFR in the UAE mirrors the Basel III standards. The NSFR identifies the key uses of funds and the different types of funding sources used by the UAE banks. It assigns available stable funding ("**ASF**") factors to the sources of funds and required stable funding ("**RSF**") (usage) factors to asset classes and off-balance sheet contingent exposures. The assigned ASF factor depends on the terms of funding and the perceived stability of the funding sources. The assigned RSF factor will depend on the liquidity of the asset being funded under a market-wide stress. Both factors will follow the Basel III standards. The NSFR minimum is 100 per cent., however, under temporary relief measures provided by the UAE Central Bank under the TESS, the regulatory NSFR limit has been decreased from 100 per cent. to 90 per cent. until 30 June 2022.

Standing Credit & Liquidity Insurance Facilities

On 15 April 2014, the UAE Central Bank introduced an Interim Marginal Lending Facility which allowed non-Islamic UAE banks to use certain assets as collateral to access UAE Central Bank liquidity overnight in order to help their liquidity management during times of market stress. On 1 March 2022 this was replaced with the Marginal Lending Facility and Contingent Liquidity Insurance Facility (together referred as the Standing Credit & Liquidity Insurance facilities). The Marginal Lending Facility performs the same function as the former Interim Marginal Lending Facility, whereas the Contingent Liquidity Insurance Facility allows access to UAE Central Bank term liquidity at the discretion of the UAE Central Bank.

The UAE Central Bank accepts a range of tradeable securities and foreign exchange as eligible collateral for the purposes of accessing the Standing Credit & Liquidity Insurance Facilities, including securities issued by sovereigns (originating in the UAE and outside the UAE), securities issued by corporates, financial institutions or supranational, municipal, or public sector issuers. In order to be eligible, collateral must meet minimum credit rating requirements specified in the terms and conditions of the Standing Credit & Liquidity Insurance Facilities. Banks accessing the Standing Credit & Liquidity Insurance Facilities must borrow a minimum of AED 10 million.

Position of depositors

There is no formal deposit protection scheme in the UAE. While no bank has, so far, been permitted to fail, during the 1980s and early 1990s a number were restructured by the relevant government authorities. In October 2008, in response to the global financial crisis, the UAE federal government announced that it intended to guarantee the deposits of all UAE banks and foreign banks with core operations in the UAE. Following therefrom, in May 2009 the UAE's National Federal Council approved a draft law guaranteeing federal deposits. However, until such time as the law is passed, there is no guaranteed government support.

Prudential regulations

The UAE Central Bank has supervisory responsibility for banking institutions in the UAE. Supervision is carried out through on-site inspections and review of periodic submissions from the banks. The frequency of inspection depends on the perceived risk of the bank, but inspections are carried out in all banks at least once every 18 months. Prudential returns are made monthly, quarterly, semi-annually or annually, depending on the nature of the information they contain. An improved risk management framework has been implemented, aimed at providing the UAE Central Bank with more up-to-date information on credit, market and operational risks within the banking sector.

Capital adequacy

All banks are required to follow the principles of the Basel accord in calculating their capital adequacy ratios. Basel II was introduced effective 17 November 2009 by way of UAE Central Bank Circular Number 27/2009. Since 1993, the UAE Central Bank had imposed a 10 per cent. minimum total capital ratio on all UAE banks. In a circular dated 30 August 2009, the UAE Central Bank announced amendments to its capital adequacy requirements, such that UAE banks were required to have a total capital adequacy ratio of at least 11 per cent., with a Tier 1 ratio of not less than 7 per cent., by 30 September 2009. Furthermore, the UAE Central Bank required banks operating in the UAE to increase their Tier 1 capital adequacy ratio to at least 8 per cent., with a minimum total capital adequacy ratio of at least 12 per cent., by 30 June 2010. Thereafter, through its circular dated 17 November 2009 introducing Basel II, the UAE Central Bank stated that it was expected that the main banks in the UAE would move to the Foundation Internal Rating Based approach under Basel II in due course. Through this circular, the UAE Central Bank reiterated that all banks operating in the UAE were required to maintain a minimum capital adequacy ratio of 11 per cent. at all times, increasing to 12 per cent. by 30 June 2010, and also laid out its expectations in relation to Pillar II and Pillar III of the Basel II framework. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions were deducted from regulatory capital.

As at the date of this Prospectus, the UAE Central Bank has adopted a policy of a gradual, phased introduction of the Basel III Reforms. As part of this gradual introduction of Basel III in the UAE, and pursuant to the February 2017 Regulations and the Capital Standards, the Issuer is required by the UAE Central Bank to maintain a minimum total capital adequacy ratio of 13 per cent., effective from 1 January 2019.

Whilst the calculation of capital adequacy ratios in the UAE follows the Bank of International Settlements guidelines, claims on or guaranteed by GCC central governments and central banks denominated in their respective domestic currencies are risk-weighted at zero per cent. and claims on GCC government non-commercial public sector entities are risk-weighted at zero to 20 per cent. Under the 2018 Federal Law, the UAE Central Bank may determine reserve requirements for UAE banks. All dividends paid by UAE banks have to be authorised in advance by the UAE Central Bank.

The Basel Committee has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued the Basel III Reforms, constituting guidance on the eligibility criteria for Tier 1 and Tier 2 capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. The implementation of the Basel III reforms began on 1 January 2013. However, the requirements are subject to a series of transitional arrangements and will be phased in over a period of time. The Basel Committee's January 2011 Press Release included an additional Basel III requirement as follows:

"*The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:*

(a) *the governing jurisdiction of the bank has in place laws that:*

- (i) *require such Tier 1 and Tier 2 instruments to be written off upon such event; or*
- (ii) *otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;*

(b) *a peer group review confirms that the jurisdiction conforms with clause (a); and*

(c) *it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a).*

The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority."

The January 2011 Press Release states that instruments issued after 1 January 2013 must meet the Non-Viability Requirement in order to be recognised as Tier 1 or Tier 2 instruments for regulatory capital purposes. The recognition of instruments issued before 1 January 2013 which do not meet these requirements will be phased out from 1 January 2013.

The February 2017 Regulations and the Accompanying Standards confirm that the Non-Viability Requirement is a pre-requisite for any capital instruments issued by UAE banks to achieve Regulatory Capital (as defined below) classification from the UAE Central Bank. The Non-Viability Requirement must be provided for contractually in the absence of a statutory loss absorption framework in the UAE as at the date of this Prospectus.

In May 2016, the UAE Central Bank published the Consultation Document entitled "*Capital Adequacy Regulation*", detailing the Basel III requirements expected to be followed by banks operating in the UAE once the applicable legislation has been implemented in the UAE. In particular, the Consultation Document outlines the general quantitative requirements expected to be followed by UAE banks with regards to Regulatory Capital. It also outlines, among other things, the Regulatory Capital ratios that UAE banks will be expected to follow and adhere to, the individual UAE bank minimum capital conservation standards and the required disclosure standards expected to be made available by UAE banks with respect to Regulatory Capital.

On 23 February 2017, the UAE Central Bank published the February 2017 Regulations in the Official Gazette issue 612, which were effective from 1 February 2017. The February 2017 Regulations are intended to ensure that the capital adequacy of all banks operating in the UAE is in line with the Basel III requirements, whilst implementing the measures contained in the Consultation Document. The February 2017 Regulations are supported by the Accompanying Standards entitled "*Standards for Capital Adequacy of Banks in the UAE*" which were published by the UAE Central Bank on 12 November 2020. The Accompanying Standards elaborate on the supervisory expectations of the UAE Central Bank with respect to the relevant Basel III capital adequacy requirements. In addition, a bank may also be subject to additional capital add-on requirements following a supervisory review and evaluation process of the UAE Central Bank (see "*Risk Factors – Risk Factors relating to the legal and regulatory environment – Changes to the Basel regulatory framework as implemented in the UAE may have an effect on the Capital Securities*").

Reserve requirements

Reserve requirements are used by the UAE Central Bank as a means of prudential supervision and to control credit expansion. The reserve requirements are 1 per cent. for term deposits and 14 per cent. for all other customer balances. As part of the temporary relief measures provided by the UAE Central Bank under the TESS, the reserve requirement for banks to maintain 14 per cent. of customer deposits other than term deposits with the UAE Central Bank has been reduced to 7 per cent.

Credit controls

Banks are required by the UAE Central Bank to establish credit policies and procedures commensurate with their size and activities. They must also have a proper credit assessment and approval process and adequate controls in place to monitor credit concentrations to, among others, individual borrowers, economic sectors and foreign countries.

The UAE Central Bank circular dated 23 February 2011 on retail banking and Notice No. 31/2013 dated 28 October 2013 (which was published in the Official Gazette on 28 November 2013 and entered into force on 28 December 2013) (the "**Mortgage Regulations**") introduced regulations regarding bank loans and other services offered to individual customers. These regulations, among other things, impose maximum loan/income and loan-to-value ratios for retail products. For example, the regulations require that the amount of any personal consumer loan shall not exceed 20 times the salary or total income of the borrower with the repayment period not exceeding 48 months. Additionally, the Mortgage Regulations specify that the amount of mortgage loans for non-UAE nationals should not exceed 75 per cent. of the property value for a first purchase of a home (with a value of less than or equal to AED 5 million), 65 per cent. of the property value for a first purchase of a home (with a value greater than AED 5 million) and 60 per cent. of the property value (irrespective of the value of the property) for second and subsequent homes. For UAE nationals, the corresponding limits are set at 80 per cent. in respect of a first purchase of a home with a value less than or equal to AED 5 million, 70 per cent. for a first home with a value greater than AED 5 million and 65 per cent. of the property value for a second or subsequent purchase (irrespective of the value of the property).

Large exposures

The UAE Central Bank defines large exposures as any funded or unfunded exposures (less provisions, cash collaterals and deposits under lien) to a single borrower or group of related borrowers exceeding prescribed limits.

On 11 November 2013, the UAE Central Bank published Central Bank Notice No. 32/2013 on large exposures (the "**Large Exposure Notice**") introducing limits of 100 per cent. of the bank's capital base for all lending to UAE local governments and their non-commercial entities, together with a 25 per cent. limit to any single such non-commercial entity. Exposures above these limits are subject to approval by the UAE Central Bank. Set out below is a table showing a summary of the limits introduced by the Large Exposure Notice (defined as a percentage of the bank's capital base calculated under Basel II):

	Cap as percentage of capital base	
	Aggregate percentage	**Individual percentage**
UAE federal government	Not applicable	Not applicable
UAE local governments and their non-commercial entities	100%	No cap for UAE local governments; 25% for each non-commercial entity
Commercial entities of UAE federal government and UAE local governments	100%	25%
A single borrower or a group of related borrowers	Not applicable	25%
Shareholders who own 5 per cent. or more of the bank's capital and their related entities	50%	20%
Domestic interbank exposures (over one year)	Not applicable	30%
Overseas interbank exposures	Not applicable	30%
Bank's subsidiaries and affiliates	25%	10%
Board members	25%	5%
Bank's employees	3%	Maximum 20 months' salary
Bank's external auditors, consultants and lawyers	Not allowed	Not allowed

Provisions for loan losses

For UAE banks, IFRS 9 was introduced for financial reporting periods commencing on 1 January 2018, replacing IAS 39 and introducing an expected credit loss ("**ECL**") model for the measurement of the impairment of financial assets, such that it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. IFRS 9 provision uses a three-stage approach in recognising increased credit risk at each stage of risk (i.e., Stage 1 for current facilities, Stage 2 for significant increase in credit risk and Stage 3 for impaired loans).

On 27 March 2020, the IASB issued a guidance note, advising that both the assessment of a significant increase in credit risk and the measurement of ECLs are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken.

Banks in the UAE generally do not write off non-performing loans from their books until all legal avenues of recovery have been exhausted. This factor tends to inflate the level of impaired loans and advances to customers and/or financings carried on the balance sheets of UAE banks when compared to banks operating in other economies.

As noted above in "*The United Arab Emirates Banking System and Prudential Regulation – COVID-19*", under the TESS, the IFRS 9 staging and classification of loans of customers that are Stage 1 and are receiving relief is expected to remain unchanged during the period of the scheme and not downgraded. In addition, as part of the UAE Central Bank's stimulus package in response to COVID-19, banks are able to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter will allow any increase in

IFRS 9 provisioning compared to 31 December 2019 to be partially added back to regulatory capital. This will allow IFRS 9 provisions to be gradually phased-in over a five year period until 31 December 2024.

Al Etihad Credit Bureau

Al Etihad Credit Bureau ("**AECB**") is a federal government company specialised in providing UAE-based credit reports and other financial information. AECB commenced operations in 2014 upon receiving formal approval from the UAE Cabinet of its regulations and its charges for producing credit reports. AECB has approached all UAE-based banks to sign data sharing agreements to enable the provision of customer credit information, with the majority having entered into such agreements and/or made successful initial data submissions to AECB by the time AECB commenced operations. As at the date of this Prospectus, the Issuer has entered into a data and credit information supply agreement with AECB.

The implementation of regulations for the sharing of credit report data and the commercial operation of the UAE's first credit bureau is expected to reduce the risk involved in the origination of customer lending and banking business generally.

Shari'a compliance

The UAE law requires financial institutions licensed by the UAE Central Bank to operate their Islamic banking business activities in compliance with the rules, standards and general principles established by the Higher *Shari'a* Authority and, in certain circumstances, requires such financial institutions to obtain the consent of the Higher *Shari'a* Authority before undertaking certain licensed financial activities.

Corporate governance

Banks in the UAE are subject to the Corporate Governance Regulations and the Corporate Governance Standards which were issued by the UAE Central Bank in 2019 with a view to ensuring banks have a comprehensive approach to corporate governance.

TAXATION

The following is a general description of certain tax considerations relating to the Capital Securities. It does not purport to be a complete analysis of all tax considerations relating to the Capital Securities and does not constitute legal or tax advice. Prospective purchasers of Capital Securities should consult their tax advisers as to the consequences under the tax laws of the countries of their respective citizenship, residence or domicile of acquiring, holding and disposing of Capital Securities and receiving payments under the Capital Securities. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Dubai and the United Arab Emirates

The following is a general overview of the current tax law and practice in Dubai and the UAE (to the extent applicable in Dubai) ("**Dubai Law**") and does not constitute legal or tax advice. Prospective investors in the Capital Securities are advised to consult their own tax advisers with respect to the tax consequences under the tax laws of the country in which they are resident, of the purchase, ownership or disposition of the Capital Securities or any interest therein.

There are currently no withholding taxes required to be levied under UAE, Abu Dhabi or Dubai law in respect of payments on debt securities (including in relation to the Capital Securities). Further to the announcement of CIT on 31 January 2022, the UAE Ministry of Finance announced the introduction of a corporate income tax on business profits, which will come into effect on 1 June 2023. The UAE Ministry of Finance has also announced that no withholding will apply in relation to this tax. See further "*Risk Factors–Tax changes in the UAE may have an adverse effect on the Issuer*". In the event of the imposition of any withholding in future, the Issuer has undertaken to gross-up any payments subject to certain limitations, as described in Condition 12 (*Taxation*).

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to revise taxes on a federal basis for the purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into double taxation arrangements with certain countries, but these are not extensive in number.

The Proposed Financial Transactions Tax (the "FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**"), for a directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since ceased to participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Capital Securities (including secondary market transactions) in certain circumstances. The issuance and subscription of Capital Securities should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in any Capital Securities where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional Member States may decide to participate.

Prospective holders of any Capital Securities are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a foreign financial institution (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Issuer is a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Issuer) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Capital Securities, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Capital Securities, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Capital Securities, such withholding would not apply to Capital Securities characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register as such Capital Securities generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional Capital Securities (as described under "*Terms and Conditions of the Capital Securities — Further Issues*") that are not distinguishable from previously issued Capital Securities are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Capital Securities, including the Capital Securities offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Capital Securities. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Capital Securities, no person will be required to pay additional amounts as a result of the withholding.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Issuer and to payments they may receive in connection with the Capital Securities.

SUBSCRIPTION AND SALE

Pursuant to a subscription agreement (the "**Subscription Agreement**") dated 5 July 2022 between the Issuer and the Joint Lead Managers, the Issuer has agreed to issue U.S.$300,000,000 in aggregate principal amount of the Capital Securities and subject to certain conditions, the Joint Lead Managers have jointly and severally agreed to subscribe or procure subscribers for the Capital Securities at the issue price of 100 per cent. of the principal amount of Capital Securities.

The Joint Lead Managers will be paid certain commissions in respect of their services for managing the issue and offering of the Capital Securities. The Issuer has agreed to reimburse the Joint Lead Managers for certain of their expenses in connection with the issue of Capital Securities and to indemnify the Joint Lead Managers against certain liabilities incurred by them in connection therewith.

United States

The Capital Securities have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act or pursuant to an exemption from the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

Each Joint Lead Manager has represented and agreed that it has not offered, sold or delivered any Capital Securities, and will not offer, sell or deliver any Capital Securities: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the completion of the distribution of all Capital Securities, except in accordance with Rule 903 of Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of the Capital Securities, an offer or sale of the Capital Securities within the United States by any dealer/manager (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

United Kingdom

Prohibition of sales to UK retail investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Capital Securities to any retail investor in the UK. For the purposes of this provision the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No. 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (8) of Article 2(1) of UK MiFIR.

Other restrictions

Each Joint Lead Manager has represented and agreed that:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Capital Securities in circumstances in which Section 21(1) of the FSMA would not, if the Issuer was not an authorised person, apply to the Issuer; and

(ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Capital Securities in, from or otherwise involving the UK.

Prohibition of Sales to EEA Retail Investors

Each Joint Lead Manager has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Capital Securities to any retail investor in the EEA. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or

(ii) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II.

Kingdom of Bahrain

Each Joint Lead Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Capital Securities in the Kingdom of Bahrain except on a private placement basis to persons in the Kingdom of Bahrain who are "accredited investors".

For this purpose, an "**accredited investor**" means:

(i) an individual holding financial assets (either singly or jointly with a spouse) of U.S.$1,000,000 or more excluding that person's principal place of residence;

(ii) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.$1,000,000; or

(iii) a government, supranational organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments (such as a state pension fund).

State of Qatar (including the Qatar Financial Centre)

Each Joint Lead Manager has represented and agreed that it has not offered, delivered or sold, and will not offer, deliver or sell, at any time, directly or indirectly, any Capital Securities in Qatar (including the Qatar Financial Centre), except: (i) in compliance with all applicable laws and regulations of Qatar (including the Qatar Financial Centre); and (ii) through persons or corporate entities authorised and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in Qatar (including the Qatar Financial Centre).

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Capital Securities. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Capital Securities pursuant to an offering should note that the offer of Capital Securities is a private placement under Article 9 or Article 10 of , or as otherwise required or permitted by, the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the KSA CMA resolution number 3-123-2017 dated 27 December 2017, as amended (the "**KSA Regulations**"), made through an authorised person licensed to carry on the securities activity of arranging in accordance with the KSA Regulations.

The Capital Securities may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Each Joint Lead Manager has represented and agreed that any offer of Capital Securities to a Saudi Investor will be made in compliance with the KSA Regulations.

The offer of the Capital Securities shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under the KSA Regulations. Any Saudi Investor who has acquired Capital Securities pursuant to a private placement under the KSA Regulations may not offer or sell those Capital Securities to any person unless the offer or sale is in compliance with the KSA Regulations.

Dubai International Financial Centre

Each Joint Lead Manager has represented and agreed that it has not offered and will not offer the Capital Securities to any person in the Dubai International Financial Centre unless such offer is:

(i) an "Exempt Offer" in accordance with the Markets Rules (MKT) module of the Dubai Financial Services Authority (the "**DFSA**") rulebook; and

(ii) made only to persons who meet the "Professional Client" criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

United Arab Emirates (excluding Dubai International Financial Centre)

Each Joint Lead Manager has represented and agreed that the Capital Securities have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Hong Kong

Each Joint Lead Manager has represented and agreed that:

(i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Capital Securities, except for Capital Securities which are a "structured product" as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the "**SFO**"), other than: (a) to "professional investors" as defined in the SFO and any rules made under the SFO; or (b) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the "**C(WUMP)O**") or which do not constitute an offer to the public within the meaning of the C(WUMP)O; and

(ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Capital Securities, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Capital Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" as defined in the SFO and any rules made under the SFO.

Japan

The Capital Securities have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "**FIEA**") and each Joint Lead Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Capital Securities in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, a resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other applicable laws and regulations of Japan.

Singapore

Each Joint Lead Manager has acknowledged that this Prospectus has not been, and will not be, registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Joint Lead Manager has represented and agreed that it has not offered or sold any Capital Securities or caused the Capital Securities to be made the subject of an invitation for subscription or purchase and will not offer or sell any Capital Securities or cause the Capital Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Capital Securities, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to

Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provisions of the SFA.

Where Capital Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Capital Securities pursuant to an offer made under Section 275 of the SFA except:

(1) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA;

(2) where no consideration is or will be given for the transfer;

(3) where the transfer is by operation of law;

(4) as specified in Section 276(7) of the SFA; or

(5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Switzerland

Each Joint Lead Manager has acknowledged, that this Prospectus is not intended to constitute an offer or solicitation to purchase or invest in the Capital Securities and has represented and agreed that the Capital Securities may not be publicly offered, directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act ("**FinSA**") and no application has or will be made by it to admit the Capital Securities to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Prospectus nor any other offering or marketing material relating to the Capital Securities constitutes a prospectus pursuant to the FinSA, and neither this Prospectus nor any other offering or marketing material relating to the Capital Securities may be publicly distributed or otherwise made publicly available in Switzerland.

General

Each Joint Lead Manager has agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers or sells any Capital Securities or possesses or distributes this Prospectus and that it will obtain any consent, approval or permission required by it for the offer or sale by it of any Capital Securities under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such offers or sales and neither the Issuer nor any of the other Joint Lead Managers shall have any responsibility therefor.

Neither the Issuer nor any of the Joint Lead Managers has represented that the Capital Securities may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating such sale. Persons into whose possession this Prospectus or the Capital Securities may come must inform themselves about, and observe, any applicable restrictions on the distribution of this Prospectus and the offering and sale of Capital Securities.

GENERAL INFORMATION

Authorisation

The issue of the Capital Securities by the Issuer was duly authorised by resolutions of the Board of Directors of the Issuer on 31 January 2022 and by the shareholders of the Issuer on 20 April 2022.

Approval of the Prospectus, Admission to Trading and Listing of Capital Securities

Application has been made to the Luxembourg Stock Exchange for the Capital Securities to be admitted to listing on the Luxembourg Official List and to trading on the Luxembourg Regulated Market. It is expected that the listing of the Capital Securities on the Luxembourg Official List and admission of the Capital Securities to trading on the Luxembourg Regulated Market will be granted on or around the Issue Date. The total expenses related to the admission to trading on the Luxembourg Regulated Market are estimated at €10,800.

Documents Available

For as long as the Capital Securities are outstanding, copies of the following documents will, when published, be available for inspection from the registered office of the Issuer and the specified offices of the Fiscal Agent for the time being in London:

(i) the Memorandum and Articles of Association (with an English translation thereof) of the Issuer;

(ii) the Financial Statements;

(iii) this Prospectus; and

(iv) the Agency Agreement (which contains the forms of the Global Certificate and the Individual Certificate) and the Deed of Covenant.

This Prospectus will be published on the website of the Issuer at https://www.mashreqbank.com/en/uae/about-us/ and will remain available for a period of 10 years following the date of this Prospectus.

In addition, the Prospectus will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu. For the term of this Prospectus, the Deed of Covenant and the Memorandum and Articles of Association of the Issuer will be available for viewing at https://www.mashreqbank.com/uae/en/about-us/moa-aoa.

Clearing Systems and Identification Codes

The Capital Securities have been accepted for clearance through Euroclear and Clearstream, Luxembourg (which are the entities in charge of keeping the records). The ISIN is XS2482857617 and the common code is 248285761. The Financial Instrument Short Name (FISN) and the Classification of Financial Instruments (CFI) Code in respect of the Capital Securities are as set out on the website of the Association of National Numbering Agencies (ANNA) or alternatively sourced from the National Numbering Agency that assigned the ISIN, in each case, as may be updated.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1 210 Brussels and the address of Clearstream, Luxembourg is Clearstream Banking S.A., 42 Avenue JF Kennedy, L-1855 Luxembourg.

Registered Office

The Issuer's registered office is located at Mashreqbank Global Headquarters, Al Umniyati Street, Burj Khalifa Community, P.O. Box 1250, Dubai, United Arab Emirates, telephone number +971 4 222 333. The Issuer's Commercial License Number is 208990 and its Commercial Registration Number is 40903.

Legal Entity Identifier ("LEI")

The LEI code of the Issuer is 5493000SA3K24EQKA103.

Website of the Issuer

The website of the Issuer is https://www.mashreqbank.com. The information on this website does not form part of this Prospectus, except where that information has been incorporated by reference into this Prospectus.

Significant or Material Change

There has been no significant change in the financial position or financial performance of the Issuer and its subsidiaries since 31 March 2022 and there has been no material adverse change in the prospects of the Issuer since 31 December 2021.

Litigation

Save as described in "*Description of the Issuer– Regulatory – 2021 Consent Order*", neither the Issuer nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer is aware) which may have or have had in the 12 months preceding the date of this Prospectus a significant effect on the financial position or profitability of the Issuer and its subsidiaries.

Conflicts of Interest

In accordance with the Commission Delegated Regulation (EU) No. 2019/980, the Issuer confirms that there are no potential conflicts of interest between the duties which its directors and/or members of its administrative, management and supervisory bodies owe to the Issuer and their private interests and/or other duties which they have.

Independent Auditors

The current auditors of the Issuer are PricewaterhouseCoopers (Dubai Branch) ("**PwC**"). PwC is a registered audit firm in the UAE, operating under professional licences issued by the Dubai Economic Department and the UAE Ministry of Economy. PwC was appointed as the Issuer's auditor on 1 January 2018. There is no professional institute of auditors in the UAE and, accordingly, PwC is not a member of a professional body in the UAE. All PwC professionals and partners directly involved in the audit are members of the institutes from where they received their professional qualifications. The address of PwC is Emaar Square, Building 5, P.O. Box 11987, Dubai, UAE. PwC has audited, without qualification, the Annual Financial Statements in accordance with International Standards on Auditing, as stated in their Independent Auditor's Report included herein. PwC has reviewed, without qualification, the Interim Financial Statements in accordance with ISRE 2410.

Joint Lead Managers transacting with the Issuer

The Joint Lead Managers and certain of their affiliates have engaged, and may in the future engage, in investment banking and/or commercial transactions with, and may perform services to the Issuer and/or the Issuer’s affiliates in the ordinary course of business. They have received, or may in the future receive, customary fees and commissions for these transactions. The Joint Lead Managers and their affiliates may have positions, deal or make markets in the Capital Securities, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer, other members of the group and their affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities. In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. The Joint Lead Managers and/or their affiliates may receive allocations of the Capital Securities (subject to customary closing conditions), which could affect future trading of the Capital Securities. Certain of the Joint Lead Managers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Capital Securities. Any such short positions could adversely affect future trading prices of the Capital Securities. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

ANNEX: INDEX TO FINANCIAL STATEMENTS

Mashreqbank PSC Group

Condensed consolidated interim financial information for the period from 1 January 2022 to 31 March 2022

Mashreqbank PSC Group

Review report and condensed consolidated interim financial information for the period from 1 January 2022 to 31 March 2022

Contents **Pages**

Review report on condensed consolidated interim financial information to the Directors of Mashreqbank PSC

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Mashreqbank PSC (the "Bank") and its subsidiaries (together referred to as the "Group") as at 31 March 2022 and the related condensed consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for the three-month period then ended and explanatory notes. The Directors are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity." A review of the condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

PricewaterhouseCoopers
27 April 2022

Murad Alnsour
Registered Auditor Number: 1301
Place: Dubai, United Arab Emirates

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Mashreqbank PSC Group

Condensed consolidated statement of financial position as at 31 March 2022

	Notes	31 March 2022 (un-audited) AED '000	31 December 2021 (audited) AED '000
ASSETS			
Cash and balances with central banks		**17,281,095**	17,507,751
Deposits and balances due from banks		**31,657,196**	28,805,095
Other financial assets measured at fair value	6	**14,398,052**	16,441,123
Other financial assets measured at amortised cost	6	**10,748,558**	10,277,824
Loans and advances measured at amortised cost	7	**71,188,184**	66,432,570
Islamic financing and investment products measured at amortised cost	8	**15,106,658**	15,053,454
Acceptances		**12,304,183**	14,340,671
Other assets		**4,792,809**	3,290,085
Reinsurance contract assets		**2,880,492**	2,699,966
Investment in associate		**63,009**	34,809
Investment properties	9	**462,829**	462,829
Property and equipment	10	**1,408,591**	1,426,096
Intangible assets		**289,600**	281,336
Total assets		**182,581,256**	177,053,609
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances due to banks	11	**22,861,056**	19,566,486
Repurchase agreements with banks		**2,757,104**	2,729,147
Customers' deposits	12	**90,076,692**	87,150,902
Islamic customers' deposits	13	**14,151,448**	14,332,087
Acceptances		**12,304,183**	14,340,671
Other liabilities		**7,625,266**	6,028,308
Medium-term loans	14	**6,821,360**	7,315,119
Insurance contract liabilities		**4,778,587**	4,566,602
Total liabilities		**161,375,696**	156,029,322
EQUITY			
Capital and reserves			
Issued and paid up capital	15	**2,006,098**	2,006,098
Statutory and legal reserves		**1,012,320**	1,012,320
General reserve		**312,000**	312,000
Currency translation reserve		**(128,583)**	(116,116)
Investments revaluation reserve		**(990,401)**	(547,489)
Retained earnings		**18,158,043**	17,561,412
Equity attributable to owners of the Parent		**20,369,477**	20,228,225
Non-controlling interests	16	**836,083**	796,062
Total equity		**21,205,560**	21,024,287
Total liabilities and equity		**182,581,256**	177,053,609

To the best of our knowledge, the condensed consolidated interim financial information present fairly in all material respects the financial condition, results of operation and cashflows of the Group as of, and for, the periods presented therein.

Abdul Aziz Abdulla Al Ghurair
Chairman

Ahmed Abdelaal
Group Chief Executive Officer

The accompanying notes form an integral part of this condensed consolidated interim financial information. (2)

Condensed consolidated statement of profit or loss for the period from 1 January 2022 to 31 March 2022 (un-audited)

	Notes	For the three month period ended 31 March 2022 AED '000	2021 AED '000
Interest income		**1,119,872**	1,013,356
Income from Islamic financing and investment products		**122,986**	110,149
Total interest income and income from Islamic financing and investment products		**1,242,858**	1,123,505
Interest expense		**(372,782)**	(376,906)
Distribution to depositors – Islamic products		**(40,962)**	(48,868)
Net interest income and income from Islamic products net of distribution to depositors		**829,114**	697,731
Fee and commission income		**1,026,132**	874,543
Fee and commission expense		**(572,029)**	(425,501)
Net fee and commission income		**454,103**	449,042
Net investment income		**17,845**	28,595
Other income, net		**262,820**	233,849
Operating income		**1,563,882**	1,409,217
General and administrative expenses	17	**(669,820)**	(619,931)
Operating profit before impairment		**894,062**	789,286
Allowances for impairment, net		**(252,141)**	(710,807)
Profit before tax		**641,921**	78,479
Tax expense		**(11,836)**	(14,092)
Profit for the period		**630,085**	64,387
Attributed to:			
Owners of the Parent		**606,132**	42,985
Non-controlling interests		**23,953**	21,402
		630,085	64,387
Earnings per share (AED)	18	**3.02**	0.24

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of other comprehensive income for the period from 1 January 2022 to 31 March 2022 (un-audited)

	For the three month period ended 31 March	
	2022	**2021**
	AED ’000	**AED ’000**
Profit for the period	**630,085**	64,387
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to profit or loss:		
Changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments)	**70,887**	23,508
Items that may be reclassified subsequently to profit or loss:		
Changes in currency translation reserve	**(14,635)**	(5,899)
Changes in fair value of financial assets measured at fair value through other comprehensive income (debt instruments)	**(505,064)**	(613,664)
Cash flow hedges - fair value loss arising during the period	**-**	437
Total other comprehensive loss for the period	**(448,812)**	(595,618)
Total comprehensive income/(loss) for the period	**181,273**	(531,231)
Attributed to:		
Owners of the Parent	**141,252**	(555,591)
Non-controlling interests	**40,021**	24,360
	181,273	(531,231)

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Mashreqbank PSC Group

Condensed consolidated statement of changes in equity for the period from 1 January 2022 to 31 March 2022 (un-audited)

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cashflow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2021	**1,775,308**	**912,099**	**312,000**	**(98,332)**	**(358,088)**	**(437)**	**16,888,178**	**19,430,728**	**757,680**	**20,188,408**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**42,985**	**42,985**	**21,402**	**64,387**
Other comprehensive income/ (loss)	**-**	**-**	**-**	**(4,401)**	**(594,612)**	**437**	**-**	**(598,576)**	**2,958**	**(595,618)**
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**(4,401)**	**(594,612)**	**437**	**42,985**	**(555,591)**	**24,360**	**(531,231)**
Transfer from investments revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**(3,657)**	**-**	**3,657**	**-**	**-**	**-**
Transaction with common control entity	**-**	**-**	**-**	**-**	**-**	**-**	**5,601**	**5,601**	**-**	**5,601**
Transaction with non-controlling interest (NCI)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(11,032)**	**(11,032)**
Balance at 31 March 2021	**1,775,308**	**912,099**	**312,000**	**(102,733)**	**(956,357)**	**-**	**16,940,421**	**18,880,738**	**771,008**	**19,651,746**

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Mashreqbank PSC Group

Condensed consolidated statement of changes in equity for the period from 1 January 2022 to 31 March 2022 (un-audited)

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cashflow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2022	**2,006,098**	**1,012,320**	**312,000**	**(116,116)**	**(547,489)**	**-**	**17,561,412**	**20,228,225**	**796,062**	**21,024,287**
Profit for the period							**606,132**	**606,132**	**23,953**	**630,085**
Other comprehensive income/(loss)	-	-	-	**(12,467)**	**(452,413)**	**-**	**-**	**(464,880)**	**16,068**	**(448,812)**
Total comprehensive (loss)/income for the period	-	-	-	**(12,467)**	**(452,413)**	**-**	**606,132**	**141,252**	**40,021**	**181,273**
Payment of dividends (Note 15)	-	-	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transaction with non-controlling interest (NCI) (Note 16)	-	-	-	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transfer from investments revaluation reserve to retained earnings	-	-	-	**-**	**9,501**	**-**	**(9,501)**	**-**	**-**	**-**
Balance at 31 March 2022	**2,006,098**	**1,012,320**	**312,000**	**(128,583)**	**(990,401)**	**-**	**18,158,043**	**20,369,477**	**836,083**	**21,205,560**

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of cash flows for the period from 1 January 2022 to 31 March 2022 (un-audited)

	For the three month period ended 31 March	
	2022 AED '000	2021 AED '000
Cash flows from operating activities		
Profit before taxation for the period	**641,921**	78,479
Adjustments for:		
Depreciation and amortisation	**61,152**	63,582
Allowances for impairment, net	**252,141**	710,807
Gain/(loss) on disposal of property and equipment	**(1,157)**	2,001
Unrealised loss on other financial assets held at FVTPL	**11,892**	7,942
Net realized gain from sale of other financial assets measured at FVTPL	**(6,574)**	(4,255)
Dividend income from other financial assets measured at FVTOCI	**(9,404)**	(7,948)
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	**(13,519)**	(24,158)
Unrealised gain on derivatives	**(34,228)**	(5,044)
Operating cash flows before tax paid and changes in operating assets and liabilities	**902,224**	821,406
Tax paid	**(11,836)**	(14,092)
Changes in operating assets and liabilities		
(Increase)/decrease in deposits with central banks	**(516,948)**	791,210
(Increase)/decrease in deposits and balances due from banks maturing after three months	**(1,308,062)**	612,800
Increase in loans and advances measured at amortised cost	**(4,731,226)**	(4,186,968)
Increase in Islamic financing and investment products measured at amortised cost	**(42,286)**	(204,855)
(Increase)/decrease in reinsurance assets	**(180,526)**	7,157
(Increase)/decrease in other assets	**(1,468,498)**	170,476
Increase in financial assets carried at FVTPL	**(12,697)**	(726,871)
Increase in repurchase agreements with banks	**27,957**	152,483
Increase in customers' deposits	**2,925,790**	703,831
(Decrease)/increase in Islamic customers' deposits	**(180,639)**	1,240,681
Increase in deposits and balances due to banks	**3,294,570**	723,299
Increase in insurance contract liabilities	**211,985**	99,959
Increase in other liabilities	**1,347,475**	582,662
Net cash generated from operating activities	**257,283**	773,178

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of cash flows for the period from 1 January 2022 to 31 March 2022 (un-audited) (continued)

	For the three month period ended 31 March	
	2022	**2021**
	AED '000	AED '000
Cash flows from investing activities		
Purchase of property and equipment	**(28,850)**	(29,122)
Purchase on intangible assets	**(32,368)**	(10,456)
Proceeds from sale of property and equipment	**9,245**	82
Purchase of other financial assets measured at fair value or amortised cost	**(10,431,041)**	(11,830,030)
Proceeds from sale of other financial assets measured at fair value or amortised cost	**11,534,496**	9,178,400
Dividend income from other financial assets measured at FVTOCI	**9,404**	7,948
Investment in associate	**(28,200)**	-
Net cash generated from /(used in) investing activities	**1,032,686**	(2,683,178)
Cash flows from financing activities		
Transaction with NCI	**-**	(11,032)
Medium term notes redeemed	**(493,759)**	(439,373)
Net cash used in financing activities	**(493,759)**	(450,405)
Net increase/(decrease) in cash and cash equivalents	**796,210**	(2,360,405)
Net foreign exchange difference	**12,467**	4,401
Cash and cash equivalents at beginning of the period	**21,302,038**	20,840,615
Cash and cash equivalents at end of the period	**22,110,715**	18,484,611

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Notes to the condensed consolidated interim financial information for the period from 1 January 2022 to 31 March 2022

1 General information

Mashreqbank PSC (the "Bank") was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank operates through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America. The address of the Bank's registered office is P.O. Box 1250, Dubai, United Arab Emirates.

At 31 March 2022 and 31 December 2021, Mashreqbank PSC Group (the "Group") comprises of the Bank and the following direct subsidiaries:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Principal activity
Subsidiary			
Oman Insurance Company (PSC)	United Arab Emirates	64.46	Insurance & reinsurance
Mindscape FZ LLC	United Arab Emirates	100.00	IT services
Mashreq Securities LLC	United Arab Emirates	99.98	Brokerage
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	Brokerage and asset & fund management
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	Islamic finance company
Injaz Services FZ LLC	United Arab Emirates	100.00	Service provider
Invictus Limited	Cayman Islands	100.00	Special purpose vehicle
Al Taqania Employment Services One Person Company LLC	United Arab Emirates	100.00	Employment Services
Al Kafaat Employment Services One Person Company LLC	United Arab Emirates	100.00	Employment Services
Mashreq for Business Process Support (Sole Person Company)	Egypt	100.00	Employment Services
Mashreq Global Services (SMC private) Limited	Pakistan	100.00	Employment Services
Shorouq Commodities Trading DMCC	United Arab Emirates	100.00	Trading
IDFAA Payment Services LLC	United Arab Emirates	100.00	Payment service provider
Osool – A Finance Company (PJSC)*	United Arab Emirates	98.00	Finance

As at 31 March 2022, the Bank had the following associates and joint venture:

Associate			
Emirates Digital Wallet LLC	United Arab Emirates	23.22	Digital wallet service
Depa PLC	United Arab Emirates	24.18	Interior Contracting
Joint venture			
Noon Digital Pay LLC	United Arab Emirates	51.00	Digital wallet service

**Under liquidation.*

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

2.1 New and revised IFRS adopted in the condensed consolidated interim financial information

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2022, have been adopted in this interim financial information. 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.

- **Narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 9 and IFRS 16-**

  Amendments to IFRS 3, ‘Business combinations’ update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

  Amendments to IAS 16, ‘Property, plant and equipment’ prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

  Amendments to IAS 37, ‘Provisions, contingent liabilities and contingent assets’ specify which costs a company includes when assessing whether a contract will be loss-making.

  Annual improvements make minor amendments to IFRS 9, ‘Financial instruments’, and the Illustrative Examples accompanying IFRS 16, ‘Leases’.

2 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 New and revised IFRS in issue but not yet effective and not early adopted

New and revised IFRS	Effective for annual periods beginning on or after
• **IFRS 17, 'Insurance contracts'** - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features.	1 January 2023

The standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied.

IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.

Management expects that the adoption of IFRS 17 will have an impact on the amounts reported and disclosures made in these consolidated financial statements in respect of its insurance contracts issued and reinsurance contracts held. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Group performs a detailed review. Management has completed the gap analysis in relation to this standard and is currently in the process of performing a detailed assessment of the impact of the above new standard on the Group's consolidated financial statements. Due to the short term nature of the majority of the contracts issued by the Group, the Premium Allocation Approach (PAA) model will be applied and the general model / variable fee approach model will be applied to the insurance contracts that do not meet the PAA eligibility criteria.

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

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

New and revised IFRS	Effective for annual periods beginning on or after
• **Amendments to IFRS 17, ‘Insurance Contracts’**- The IASB issued the amendments to IFRS 17, ‘Insurance contracts’, on 25 June 2020, together with an amendment to IFRS 4, so that eligible insurers can still apply IFRS 9 alongside IFRS 17. This concluded the IASB’s targeted amendments to IFRS 17 which aimed to ease implementation of the standard by reducing implementation costs and making it easier for entities to explain, to investors and others, the results from applying IFRS 17.	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.	Deferred until accounting periods starting not earlier than 1 January 2024
• **Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction-** These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023

2 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

New and revised IFRS	Effective for annual periods beginning on or after
• **Amendments to IAS 1, 'Presentation of financial statements', IFRS Practice statement 2 and IAS 8,' Accounting policies, changes in accounting estimates and errors'** The IASB amended IAS 1, 'Presentation of Financial Statements', to require companies to disclose their material accounting policy information rather than their significant accounting policies. The amendment also clarifies that accounting policy information is expected to be material if, without it, the users of the financial statements would be unable to understand other material information in the financial statements. Further, the amendment to IAS 1 clarifies that immaterial accounting policy information need not be disclosed. However, if it is disclosed, it should not obscure material accounting policy information. To support this amendment, the Board also amended IFRS Practice Statement 2, 'Making Materiality Judgements', to provide guidance on how to apply the concept of materiality to accounting policy disclosures. 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, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.	1 January 2023

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.

3 Summary of significant accounting policies

3.1 Basis of preparation

This condensed consolidated interim financial information of the Group is prepared under the historical cost basis except for certain financial instruments, including derivatives, investment properties and reserves for unit linked policies which are measured at fair value.

This condensed consolidated interim financial information is prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting* (“IAS 34”), issued by the International Accounting Standard Board (‘IASB’) and also comply with the applicable requirements of the laws in the U.A.E.

The accounting policies used in the preparation of this condensed consolidated interim financial information is consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2021.

This condensed consolidated interim financial information does not include all the information and disclosures required in full consolidated financial statements and should be read in conjunction with the Group’s consolidated financial statements for the year ended 31 December 2021. In addition, results for the period from 1 January 2022 to 31 March 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

As required by the Securities and Commodities Authority of the U.A.E. (“SCA”) Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to financial assets, cash and cash equivalents, Islamic financing and investing assets and investment properties have been disclosed in the condensed consolidated financial information.

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Group has 12 months from 2 January 2022 to comply with the provisions of the UAE Federal Decree Law No 32 of 2021. The Bank is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

3.2 Basis of consolidation

This condensed consolidated interim financial information incorporates the financial information of the Bank and entities controlled by the Bank. Control is achieved where the Bank has the power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor’s returns.

The condensed consolidated interim financial information comprises the financial information of the Bank and of the subsidiaries as disclosed in Note 1. The financial information of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

3 Summary of significant accounting policies (continued)

3.3 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

For financial assets or financial liabilities not at fair value through profit or loss, at initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus transactions costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fee and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance ('ECL') is recognized for financial assets measured at amortised cost and investment in debt instruments measured as FVTOCI, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.

Debt instruments, including loans and advances and Islamic financing and investments products, are measured at amortised cost if both of the following conditions are met:

(i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
(ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

All other financial assets are subsequently measured at fair value.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and Interest (‘SPPI’), and that are not designated at fair value through profit or loss (‘FVTPL’), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized.

- Fair value through other comprehensive income (‘FVTOCI’): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets’ cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVTOCI. Movement in carrying amount are taken through Other Comprehensive Income (‘OCI’), except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments’ amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in ‘Net investment income’.

- Fair value through profit or loss (‘FVTPL’): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within ‘Net investment income’ in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in ‘Net investment income’.

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as investment income when the Group's right to receive payments is established

Amortised cost and effective interest method

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(i) Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(ii) Modification of loans

The Group sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When 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 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.

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.

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(ii) Modification of loans (continued)

The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

(iii) Derecognition other than on a modification

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 the predetermined repurchase price, and criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retains a subordinated residual interest.

3.4 Financial liabilities

Classification and subsequent measurement

Financial liabilities (including deposits and balances due to banks, repurchase agreements with banks, medium term loans and customer deposits) are initially recognised at 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;

3 Summary of significant accounting policies (continued)

3.4 Financial liabilities (continued)

Classification and subsequent measurement (continued)

- 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.

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.

3.5 Financial guarantee contracts and loan 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. Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance.

3 Summary of significant accounting policies (continued)

3.6 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the condensed consolidated interim statement of profit or loss;
- for financial assets that are monetary items and designated as at FVTOCI, any foreign exchange component is recognized in consolidated statement of profit or loss;
- for financial assets that are non-monetary items and designated as at FVTOCI, any foreign exchange component is recognised in the consolidated statement of comprehensive income; and
- for foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

3.7 Islamic financing and investment products

In addition to conventional banking products, the Group offers its customers certain non-interest based banking products, which are approved by its Shari'ah Supervisory Board.

Any conventional terminologies that are used only for reasons of legal requirement, explanation and/or clarity will be considered as replaced with its Shari'ah compliant equivalent and will not impact the Islamic products or documentation in terms of their Shari'ah compliance. All Islamic banking products are accounted for in conformity with the accounting policies described below:

(i) Accounting policy

Islamic financing and investing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investing products is measured in accordance with note 3.3(i). Islamic financing and investing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(ii) Revenue recognition policy

Income from Islamic financing and investing assets are recognised in the condensed consolidated statement of profit or loss using the effective profit method.

3 Summary of significant accounting policies (continued)

3.7 Islamic financing and investment products (continued)

(ii) Revenue recognition policy (continued)

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

(iii) Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) are calculated according to the Group's standard procedures and are approved by the Group's Sharia'a Supervisory Board.

3.8 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at fair value, which reflects market conditions at the reporting date. Gains and losses arising from changes in the fair value of investment properties are included in the condensed consolidated statement of profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the condensed consolidated profit or loss in the period in which the property is derecognised.

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation or commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use. Fair value is determined by open market values based on valuations performed by independent surveyors and consultants or broker's quotes.

3 Summary of significant accounting policies (continued)

3.9 Leasing

The group leases various branches, offices and premises for ATMs. Rental contracts are typically made for fixed periods of 12 months to 5 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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 are measured at cost comprising the following:

- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date less any lease incentives received

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.

3.10 Financial risk management

The Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2021, except for those matters described in note 4.2.

3.11 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and other balances with the Central Bank of the UAE (excluding statutory reserve) and money market placements which are maturing within three months from the value date of the deposit or placement. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4 Risk management

4.1 Credit risk

Credit risk is the risk of suffering a financial loss as a result of any of the Group's customers failing or unwilling to fulfil their contractual obligations to the Group. Credit risk arises mainly from loan and advances, loan commitments arising from such lending activities, trade finance and treasury activities but can also arise from financial guarantees, letter of credit, endorsements and acceptances. The Group is also exposed to credit risk arising from investments in debt instruments, derivatives as well as settlement balances with market counterparties.

The Chief Credit Officer ("CCO") of the Group is responsible for overseeing all aspects of credit risk management supported by a team of experienced and trained credit managers. The CCO and credit managers have delegated authority within the risk management framework to approve credit transactions and manage credit risk on an ongoing basis.

Credit risk is the single largest risk from the Group's business of extending loans and advances (including loan commitments, letters of credit and letters of guarantee) and carrying out investment in securities and debts; management therefore carefully manages its exposure to credit risk. Credit risk management and controls are centralized under the CCO function with regular governance and monitoring exercised by the Board Risk Committee ("BRC"), Board Credit Committee ("BCC") and Enterprise Risk Committee ("ERC").

Specifically, the BCC reviews and approves credit proposals that are beyond lending authorities delegated to management by the Board of Directors. In addition, BRC and BCC monitor key elements of the Bank's credit risk profile relative to the Bank's risk appetite. The Board Committees are supported by ERC through detailed review and monitoring of credit portfolio, including exposure concentrations.

An Early Alert Committee ("EAC") is also in place to review and proactively identify potential problematic exposures within Corporate and Investment Banking ("CIBG") and International Banking ("IBG") business groups and determine appropriate strategies. The EAC, along with the IFRS 9 Forum (a forum in place to oversee all aspects of the Group's IFRS 9 framework), plays an important role in ensuring that credit fundamentals are linked to determination of Significant Increase in Credit Risk (SICR) and staging for IFRS 9 purposes.

4 Risk management (continued)

4.1 Credit risk (continued)

(i) The following tables explains the changes in the gross carrying for loans and advances (including Islamic financing and investment products) measured at amortised cost

	31 March 2022 (un-audited)			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Gross carrying amount as at 1 January	**76,512**	**6,262**	**5,434**	**88,207**
Transfers				
Transfer from Stage 1 to Stage 2	**(1,663)**	**1,663**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(17)**	**-**	**17**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(140)**	**140**	**-**
Transfer from Stage 2 to Stage 1	**237**	**(237)**	**-**	**-**
New financial assets originated	**26,720**	**-**	**-**	**26,720**
Repayments and other movements	**(19,904)**	**(1,804)**	**(176)**	**(21,884)**
Write-offs	**-**	**-**	**(361)**	**(361)**
Gross carrying amount as at 31 March	**81,885**	**5,744**	**5,054**	**92,682**

	31 December 2021 (audited)			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Gross carrying amount as at 1 January	67,110	5,598	4,637	77,344
Transfers	-	-	-	-
Transfer from Stage 1 to Stage 2	(3,974)	3,974	-	-
Transfer from Stage 1 to Stage 3	(223)	-	223	-
Transfer from Stage 2 to Stage 3	-	(975)	975	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	82	(82)	-	-
New financial assets originated	46,689	-	-	46,689
Repayments and other movements	(33,172)	(2,253)	629	(34,796)
Write-offs	-	-	(1,030)	(1,030)
Gross carrying amount as at 31 December	76,512	6,262	5,434	88,207

Notes to the condensed consolidated interim financial information for the period from 1 January 2022 to 31 March 2022 (continued)

4 Risk management (continued)

4.1 Credit risk (continued)

ii) The following tables explain the changes in the loss allowance for loans and advances (including Islamic financing and investment products) measured at amortised cost:

	31 March 2022 (un-audited)			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total ECL
	AED (in million)			
Loss allowance as at 1 January	**563**	**1,247**	**4,911**	**6,721**
Transfers		**-**	**-**	**-**
Transfer from Stage 1 to Stage 2	**(94)**	**94**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(29)**	**-**	**29**	**-**
Transfer from Stage 2 to Stage 1	**6**	**(6)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(12)**	**12**	**-**
New financial assets originated	**235**	**-**	**-**	**235**
Changes in PDs/LGDs/EADs	**(107)**	**46**	**(147)**	**(208)**
Write-offs	**-**	**-**	**(361)**	**(361)**
Loss allowance as at 31 March	**574**	**1,369**	**4,444**	**6,387**

	31 December 2021 (audited)			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total ECL
	AED (in million)			
Loss allowance as at 1 January	615	2,287	2,909	5,811
Transfers				
Transfer from Stage 1 to Stage 2	(152)	152	-	-
Transfer from Stage 1 to Stage 3	(15)	-	15	-
Transfer from Stage 2 to Stage 1	1	(1)	-	-
Transfer from Stage 2 to Stage 3	-	(748)	748	-
Transfer from Stage 3 to Stage 2	-	-	-	-
New financial assets originated	328	-	-	328
Changes in PDs/LGDs/EADs	(214)	(443)	2,269	1,612
Write-offs	-	-	(1,030)	(1,030)
Loss allowance as at 31 December	563	1,247	4,911	6,721

4 Risk management (continued)

4.1 Credit risk (continued)

iii) The credit risk exposures relating to on-balance sheet items (excluding loans and advances and Islamic financing and investment products) are as follows:

Due from banks	**31 March 2022 (un-audited)**			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Investment-grade	**5,486**	**39**	**-**	**5,525**
BB+ & below	**12,406**	**913**	**-**	**13,319**
Unrated	**11,177**	**1,733**	**35**	**12,945**
	29,069	**2,685**	**35**	**31,789**
Loss allowance	**(87)**	**(28)**	**(17)**	**(132)**
	28,982	**2,657**	**18**	**31,657**

Due from banks	**31 December 2021 (audited)**			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Investment-grade	5,765	73	-	5,838
BB+ & below	12,104	1,360	-	13,464
Unrated	8,115	1,477	79	9,671
	25,984	2,910	79	28,973
Loss allowance	(92)	(15)	(61)	(168)
	25,892	2,895	18	28,805

Exposures of AED 1.3 billion and AED 135 million were transferred from stage 1 to 2 and stage 2 to 1 respectively during the three month period ended 31 March 2022. There were no other transfers between stages during the period ended 31 March 2022.

***Other financial assets measured at amortised cost and FVTOCI* (debt securities)**	**31 March 2022 (un-audited)**			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Investment-grade	**17,006**	**-**	**-**	**17,006**
BB+ & below	**4,768**	**-**	**-**	**4,768**
Unrated	**365**	**-**	**2**	**367**
	22,139	**-**	**2**	**22,141**
Loss allowance	**(57)**	**-**	**(2)**	**(59)**
	22,082	**-**	**-**	**22,082**

4 Risk management (continued)

4.1 Credit risk (continued)

Other financial assets measured at amortised cost and FVTOCI (debt securities)	31 December 2021 (audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
	AED (in million)			
Investment-grade	14,129	-	-	14,129
BB+ & below	4,201	-	-	4,201
Unrated	5,456	-	2	5,458
	23,786	-	2	23,788
Loss allowance	(27)	-	(2)	(29)
	23,759	-	-	23,759

There were no transfers between stages during the period ended 31 March 2022.

Other assets	31 March 2022 (un-audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
	AED (in million)			
Other assets	**-**	**643**	**453**	**1,096**
Loss allowance	**-**	**(18)**	**(423)**	**(441)**
Carrying amount	**-**	**625**	**30**	**655**

Other assets	31 December 2021 (audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
	AED (in million)			
Other assets	-	567	435	1,002
Loss allowance	-	(20)	(420)	(440)
Carrying amount	-	547	15	562

There were no transfers between stages during the period ended 31 March 2022.

4 Risk management (continued)

4.1 Credit risk (continued)

	31 March 2022 (un-audited)			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Acceptances	**12,193**	**111**	**-**	**12,304**
Loss allowance	**(18)**	**(2)**	**-**	**(20)**

	31 December 2021 (audited)			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Acceptances	14,137	204	-	14,341
Loss allowance	(26)	(4)	-	(30)

There were no transfers between stages during the period ended 31 March 2022 and 31 March 2021.

4 Risk management (continued)

4.1 Credit risk (continued)

(iv) The following tables explains the changes in the balances for off-balance sheet items (LC, LGs and commitments):

	31 March 2022 (un-audited)			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
As at 1 January	**50,120**	**6,081**	**1,241**	**57,442**
Transfers				
Transfer from Stage 1 to Stage 2	**(847)**	**847**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(25)**	**25**	**-**
Transfer from Stage 2 to Stage 1	**214**	**(214)**	**-**	**-**
New contracts originated	**11,674**	**-**	**-**	**11,674**
Other movements	**(6,743)**	**(990)**	**(85)**	**(7,818)**
As at 31 March	**54,418**	**5,699**	**1,181**	**61,298**

	31 December 2021 (audited)			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
As at 1 January	49,114	4,258	2,382	55,754
Transfers				
Transfer from Stage 1 to Stage 2	(3,810)	3,810	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(16)	16	-
Transfer from Stage 3 to Stage 2	-	-	-	-
Transfer from Stage 2 to Stage 1	182	(182)	-	-
New contracts originated	20,879	-	-	20,879
Other movements	(16,245)	(1,789)	(1,157)	(19,191)
As at 31 December	50,120	6,081	1,241	57,442

Notes to the condensed consolidated interim financial information for the period from 1 January 2022 to 31 March 2022 (continued)

4 Risk management (continued)

4.1 Credit risk (continued)

v) The following tables explain the changes in the loss allowance for LC, LGs, commitments and acceptances:

	31 March 2022 (un-audited)			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total ECL
	AED (in million)			
As at 1 January	**88**	**42**	**409**	**539**
Transfers				
Transfer from Stage 1 to Stage 2	**(2)**	**2**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(2)**	**2**	**-**
Transfer from Stage 2 to Stage 1	**1**	**(1)**	**-**	**-**
New financial assets originated	**20**	**-**	**-**	**20**
Changes in PDs/LGDs/EADs	**(34)**	**(5)**	**264**	**225**
As at 31 March	**73**	**36**	**675**	**784**

	31 December 2021 (audited)			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total ECL
	AED (in million)			
As at 1 January	92	52	325	469
Transfers				
Transfer from Stage 1 to Stage 2	(14)	14	-	-
Transfer from Stage 2 to Stage 1	3	(3)	-	-
New financial assets originated	69	-	-	69
Changes in PDs/LGDs/EADs	(62)	(21)	84	1
As at 31 December	88	42	409	539

4 Risk management (continued)

4.2 Risk management in the current economic scenario

Economic fallout from COVID-19 crisis has now mostly been contained through the advent of global vaccination drives along with targeted economic measures. With infection and death rates now coming under control, lockdown and other restrictions have eased, which has in turn led to a return of normalcy and a pick-up in economic activity. While the Group continues to closely monitor the situation and work closely with clients to work through any residual elements of COVID-19 related stresses, it is management's view that economic risks associated with the pandemic have moderated to a great extent at present.

In addition, the Group is currently focused on managing direct and indirect impacts resulting from the Russia and Ukraine conflict and the resultant geopolitical fall-out.

Impact of current Macroeconomic environment on measurement of ECL

The Group has robust governance in place to ensure appropriateness of the IFRS 9 framework and resultant Expected Credit Loss ("ECL") estimates at all times. Specifically, all aspects of the IFRS 9 framework are overseen by the ERC and a dedicated IFRS 9 Forum ("the forum"). The forum is chaired by the Head of Enterprise Risk Management with participation from business, Finance, credit & risk management departments. The Group, through the forum, reviews the appropriateness of inputs and methodology for IFRS 9 ECL on an ongoing basis.

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in macroeconomic environment, risk profile as well as any actual and expected increase in credit risk.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

With respect to monitoring of COVID-19 impacts, the Group continues to:

(i) Classify clients benefitting from payment deferrals into two groups; (a) Group 1: clients those are temporarily and mildly impacted; and (b) Group 2: clients that are significantly impacted and potential stage migrations; and

(ii) Revise to IFRS 9 model inputs pertaining to macroeconomic forecasts in case the situation demands;

Grouping of clients have been carried out based on an assessment of Significant Increase in Credit Risk ("SICR") for clients benefiting from payment deferrals. The Group has applied knowledge of its clients and judgement in assessing SICR and whether the impact of COVID-19 is temporary or longer term. Specifically, clients that are expected to face liquidity constraints without substantial changes in their creditworthiness have been classified in Group 1. For these clients, the Group holds the view that, despite being subject to payment deferrals, there is insufficient deterioration in credit quality to trigger a stage migration. On the other hand, clients that are expected to face substantial changes in their creditworthiness beyond liquidity issues have been classified as Group 2. Ultimately grouping of borrowers assists in determining whether a stage migration is warranted. As at 31 March 2022, the proportion of clients benefitting from deferrals along with their exposures and ECL is as follows:

		Group 1		Group 2	
Sector	**Total gross carrying amount**	**Gross carrying amount**	**ECL**	**Gross carrying amount**	**ECL**
		AED (in million)			
Manufacturing	**15,287**	**25**	**-**	**-**	**-**
Construction	**8,340**	**907**	**39**	**37**	**-**
Trade	**15,390**	**407**	**3**	**4**	**-**
Transport and communication	**3,681**	**251**	**10**	**-**	**-**
Services	**12,186**	**746**	**8**	**-**	**-**
Financial institutions	**3,065**	**-**	**-**	**-**	**-**
Personal*	**13,775**	**1,213**	**24**	**492**	**44**
Residential mortgage*	**8,502**	**943**	**-**	**449**	**4**
Government and related enterprises	**14,256**	**75**	**-**	**-**	**-**
	94,482	**4,567**	**84**	**982**	**48**

*The above categories of "Personal" and "Residential Mortgage" mainly comprises of Retail portfolio of the Bank.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

Impact of current Macroeconomic environment on measurement of ECL

The Bank has deferred payments for customers in line with the economic relief programs announced in the countries, where the Bank operates. Due to the payment deferrals, the contractual cashflows from these credit exposures (totaling to AED 141 million) have been modified and in accordance with IFRS 9 requirements the Group has recognized a modification loss of AED 1 million, which is included as part of the ECL disclosed in note 4.1.

With respect to the Russia and Ukraine conflict, a significant majority of the Group's exposure to Russia and Ukraine is to Financial Institution in these countries. In light of the current economic situation and ongoing sanctions, the Group has proactively chosen to set aside a credit Judgmental Overlay ("JO") of AED 19 million within the Group's ECL. The Group has utilized stressed / punitive credit ratings and haircuts on securities, where relevant, within the ECL framework to quantify the Credit JO, thereby ensuring a pragmatic view and sufficient coverage from a provision standpoint. The Group is monitoring the day-to-day situation of the crisis and is actively managing down any direct exposure.

Reasonableness of ECL estimates

The Group performs historical analysis to determine key economic variables that impact credit risk across different portfolios. Macroeconomic forecasts[1] for these economic variables are used to estimate risk parameters (PD and LGD) on a forward-looking basis for all borrowers and instruments that are in scope of IFRS 9 ECL framework. In accordance with IFRS 9 requirements, the Group estimates these risk parameters under optimistic, base and pessimistic scenarios with representative weights used to measure ECL. The models have been refreshed with latest macro-economic data for the period ended 31 March 2022.

From a sensitivity analysis point of view, if the pessimistic scenario was changed by +10% / -10%, ECL would change by +/- AED 19 million.

The Group had previously maintained a Credit Judgmental Overlay ("JO") of AED 175 million to reflect potential increase in credit risk emanating from impact of COVID 19 in the credit environment. The Group is of the view that risks associated with the pandemic have now mostly crystalized and are reflected in the business performance. Accordingly, the JO has been discontinued as of 30 September 2021. Even though the JO has been discontinued, the Group continues to closely monitor the impact of COVID-19 crisis on credit portfolios and overall levels of credit risk. Most corporate borrowers within vulnerable sectors have been internally re-rated in 2021 using their most up to date financial position. Accordingly, any deterioration in credit quality since the onset of the pandemic is now reflected in the ECL estimation.

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[1] The Bank utilizes 'Abu Dhabi Stock Index', 'Annual change in UAE Current Account to GDP Ratio', 'UAE Budget expenditure as a% of GDP', 'Oil Price', 'World Industrial Production Growth' and 'World GDP growth' as leading macroeconomic variables, amongst others, within the Bank's IFRS 9 models. Values for these have changed by + 22%, +120%, -5%, 107%, 8% and -48.8% respectively under the adverse scenario for year 1 relative to previous quarter projections. Normalized scenario probability used by the Bank is based on 60% base, 20% optimistic and 20% pessimistic scenario probability.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

Liquidity management

The effects of the COVID-19 crisis on the economy continue to be felt by the UAE banks. The gradual recovery in the oil prices along with renewed access to the international capital markets by GCC sovereigns and financial institutions however, have eased the concerns regarding GCC Governments' finances and banking sector's liquidity. In this environment, the Group has taken measures to manage its liquidity carefully. The Bank's ALCO meets regularly with primary focus on monitoring cash flows and forecasts, across all jurisdictions in which the Bank operates. The Bank has strengthened its liquidity buffer significantly through raising deposits. The CBUAE has adopted a proactive approach in order to ensure flow of credit to the economy, especially to sectors severely impacted by the COVID-19 crisis. The CBUAE announced a comprehensive Targeted Economic Support Scheme ("TESS") effective from 15 March 2020, allowing UAE Banks to access zero cost funding and pass on the benefit to their clients through Principal and Interest deferrals.

CBUAE also reduced Reserve Requirement against CASA balances, providing an immediate boost to UAE Banks' liquidity. CBUAE also reduced Reserve Requirement against CASA balances, providing an immediate boost to UAE Banks' liquidity. Given the increase in economic activity and stability of the financial system, CBUAE is starting a gradual and well calibrated withdrawal of some of the TESS facilities, which is scheduled to be concluded by mid of 2022.

The combination of above measures by the CBUAE along with prudent liquidity management by the Bank, has helped to ensure that the Bank is able to meet its clients' banking services requirements effectively and without disruption. Recently, while the Russia Ukraine crisis negatively impacted US and European markets, it has not had a discernable impact on liquidity in the UAE due to the accompanying rise in oil prices and the increase in Government and Related Enterprises ("GRE") cash balances.

LIBOR transition

The Group is actively preparing for the transition to Alternative Reference Rates (ARR) under the supervision of a cross-functional working committee, which includes representatives from Risk, Finance, Technology, Legal, Marketing and relevant business units. In line with the disclosures in the financial statements for the year ended 31 December 2021, the Group's transition program has commenced and will be running until the final publication date of LIBOR on 30 June 2023.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

LIBOR transition (continued)

Financial instruments impacted by IBOR reform

The exposures impacted by the LIBOR Transition reference USD LIBOR are summarized in the table below. None of these instruments had been transitioned to an Alternative Reference Rate (SOFR) as at 31 March 2022.

	31 March 2022
	AED (in million)
Non-derivative financial assets	**29,483**
Non-derivative financial liabilities	**1,592**
Derivatives	**27,884**

As at 31 March 2022, the Group did not hold any off-balance sheet commitments and financial guarantees linked to LIBOR.

Hedge accounting

The Group did not enter into any any LIBOR-linked hedging instruments since January 2022. The existing contracts are due from transition on 30 June 2023.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

Insurance subsidiary of the Group

The Bank's insurance subsidiary ("subsidiary") assessed the impact of Covid-19 on business continuity, claims and reserving, control environment, credit risk, fair value of investment properties, impairment of financial investments measured at amortised cost, liquidity and solvency.

The subsidiary mainly noticed a decrease in health care and life insurance claims, and developments in existing Business Interruption claims due to COVID-19. The subsidiary is monitoring the loss experience and has appropriately calculated its technical reserves as at 31 March 2022.

Since 2019, the subsidiary has developed a robust risk appetite framework and capital thresholds based on the pandemic risk and other risk stress scenarios. The subsidiary conducts more regular reviews on its reinsurers in relation to the counterparty credit ratings, financial metrics, credit outlook and changes to their structures, if any. The current security list has more than 90% of "A" and above rated reinsurance securities.

The liquidity position of the subsidiary remains strong. Further enhancements and developments to strengthen the processes and credit controls have resulted in an efficient receivable management. The subsidiary continued to have robust collections and the measures taken have contributed to controlled and healthy receivable book as at 31 March 2022.

The subsidiary continues to assess the impact of Covid-19 on the Group's operations and takes necessary actions as needed.

On 10 February 2022, Oman Insurance's Syndicate 2880 received Lloyd's approval to commence underwriting. Syndicate 2880 was launched under the Syndicate-in-a-box initiative (SIAB) and will operate on the Lloyd's platform under the Dubai International Financial Centre (DIFC). As part of SIAB arrangement, Oman Insurance has also incorporated "OIC Corporate Member Limited", a private limited company in England and Wales, United Kingdom as a fully owned subsidiary of Oman Insurance Company P.S.C. ("OIC").

As part of SIAB arrangement, OIC on behalf of 'OIC Corporate Member Limited' has pledged certain bonds having nominal value of USD 27,730 thousand to be held at Lloyd's deposit with the beneficial ownership remains with OIC. Net book value of these bonds is AED 111,528 thousand as at 31 March 2022.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

Insurance subsidiary of the Group (continued)

Aditionally, on 23 February 2022, OIC and ASSICURAZIONI GENERALI S.p.A acting through its branch office in the UAE ("Generali UAE") signed an agreement to transfer the life insurance portfolio of Generali UAE to OIC. This portfolio transfer is expected to be completed in Q3 2022 subject to the necessary required regulatory approvals.

Also on 4 March 2022, a share sale and purchase agreement was signed between Oman insurance company P.S.C. (OIC) and VHV Reasürans A.Ş. - Istanbul, Turkey (a company of VHV Group - Hannover, Germany) for OIC to fully sell 100% shareholding in the Group's subsidiary Dubai Sigorta A.Ş., Turkey, subject to the required regulatory approvals. The financial effect of this transaction will be reflected in the condensed consolidated interim financial information once the regulatory approvals are obtained and necessary transaction is completed.

4.3 Compliance risk

Contingent liabilities

In 2015, the Bank became aware that certain historical US dollar payment processing activities involving Sudan may have potentially breached US sanction laws in effect at the time. The Bank proactively cooperated with the UAE and the US regulators and appointed external legal advisors to assist in the review of these transactions, which occurred prior to March 2009, including compliance with US sanction laws as well as its own compliance processes. In 2018, the Bank formally submitted the findings of the review to the regulators in both the UAE and the US.

Certain US agencies and regulators concluded their reviews without levying any penalties. During the year ended 31 December 2021 the Bank reached a settlement with the Office of Foreign Assets Control (OFAC), the New York State Department of Financial Services (DFS) and the Federal Reserve Board of Governors (FRB). As part of the settlement the Bank agreed to pay $100 million to the DFS which was fully provided for in the consolidated financial statements for the year ended 31 December 2021.

Dialogue with a US agency on the same matter is ongoing and, based on legal advice, it is premature at this stage to determine if the Bank is likely to be subject to any further penalty or the quantum of the penalty. The Group, on a continuous basis, identifies and assesses such risks and recognizes provisions, in consultation with its legal counsel, in accordance with the accounting policy for provisions as disclosed in the annual consolidated financial statements for the year ended 31 December 2021.

5 Critical accounting judgements and key sources of estimation of uncertainty

The preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2021.

6 Other financial assets

(a) The analysis of the Group's other financial assets is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit and loss (FVTPL)		
Debt securities	**1,600,222**	1,548,129
Equities		
Quoted	**36,761**	37,668
Unquoted	**958**	1,113
Mutual and other funds	**642,881**	686,534
	2,280,822	2,273,444
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	**11,334,410**	13,480,719
Equities		
Quoted	**661,591**	577,857
Unquoted	**66,393**	53,589
Mutual and other funds	**54,836**	55,514
	12,117,230	14,167,679
Total other financial assets measured at fair value (A)	**14,398,052**	16,441,123
(iii) Other financial assets measured at amortised cost		
Debt securities	**10,801,542**	10,302,332
Less: Allowance for impairment	**(52,984)**	(24,508)
Total other financial assets measured at amortised cost (B)	**10,748,558**	10,277,824
Total other financial assets [(A) +(B)]	**25,146,610**	26,718,947

6 Other financial assets (continued)

(b) The geographical analysis of other financial assets is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Balances within the U.A.E.	**9,059,752**	10,908,883
Balances outside the U.A.E.	**16,139,842**	15,834,572
	25,199,594	26,743,455
Less: Allowance for impairment	**(52,984)**	(24,508)
	25,146,610	26,718,947

(c) During the period from 1 January 2022 to 31 March 2022, dividends received from financial assets measured at FVTOCI amounting to AED 9.4 million (period ended 31 March 2021: AED 8 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.

(d) At 31 March 2022, certain financial assets measured at amortised cost, financial assets measured at fair value included debt securities with an aggregate carrying value of AED 2,935 million (fair value of AED 2,985 million) [31 December 2021: carrying value of AED 2,890 million (fair value of AED 2,905 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 2,343 million (31 December 2021: AED 2,288 million).

(e) During the period, the Group has reviewed its portfolio and sold certain other financial assets measured at amortised cost, resulting in a gain of AED 0.02 million (period ended 31 March 2021: gain of AED 12 million) on the sale.

7 Loans and advances measured at amortised cost

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Loans	**67,186,455**	63,354,455
Overdrafts	**7,093,749**	6,465,665
Credit cards	**1,959,356**	1,915,726
Others	**711,390**	790,801
Total	**76,950,950**	72,526,647
Less: Allowance for impairment	**(5,762,766)**	(6,094,077)
	71,188,184	66,432,570

(b) The analysis of loans and advances measured at amortised cost by industry sector is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Manufacturing	**13,520,011**	11,404,850
Construction	**6,893,684**	6,939,219
Trade	**14,409,451**	14,706,291
Transport and communication	**3,487,409**	3,065,888
Services	**9,505,919**	7,368,222
Financial institutions	**1,900,462**	2,532,671
Personal	**8,774,048**	8,196,625
Residential mortgage	**7,215,064**	6,819,805
Government and related enterprises	**11,244,902**	11,493,076
	76,950,950	72,526,647
Less: Allowance for impairment	**(5,762,766)**	(6,094,077)
	71,188,184	66,432,570

7 Loans and advances measured at amortised cost (continued)

(c) The analysis of allowance for impairment on loans and advances measured at amortised cost by industry sector is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Manufacturing	**240,010**	246,502
Construction	**1,841,822**	2,017,902
Trade	**628,512**	684,979
Transport and communication	**480,742**	531,710
Services	**551,066**	660,663
Financial institutions	**14,092**	14,630
Personal	**1,763,484**	1,777,812
Residential mortgage	**191,144**	99,050
Government and related enterprises	**51,894**	60,829
	5,762,766	6,094,077

(d) The movements in the allowance for impairment and suspended interest on loans and advances measured at amortised cost are as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Balance at the beginning of the period / year	**6,094,077**	5,403,626
Impairment allowance for the period / year	**(32,728)**	1,529,908
Interest in suspense	**65,208**	150,359
Exchange rate and other adjustments	**(2,826)**	39,720
Written off during the period / year	**(360,965)**	(1,029,536)
Balance at the end of the period / year	**5,762,766**	6,094,077

(e) The allowance for impairment includes a specific provision of AED 3,867 million for stage 3 loans of the Group as at 31 March 2022 (31 December 2021: AED 4,347 million).

(f) At 31 March 2022, certain loans and advances measured at amortised cost with an aggregate carrying value of AED 1,332 million (fair value of AED 892 million) [31 December 2021: carrying value of AED 1,332 million (fair value of AED 945 million)] were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 414 million (31 December 2021: AED 441 million).

8 Islamic financing and investment products measured at amortised cost

(a) The analysis of the Group's Islamic financing and investment products measured at amortised cost is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Financing		
Murabaha	**11,887,377**	11,403,396
Ijarah	**5,184,886**	5,344,195
	17,072,263	16,747,591
Investment		
Wakalah	**458,310**	464,826
	458,310	464,826
Total	**17,530,573**	17,212,417
Less: Unearned income	**(1,800,088)**	(1,532,000)
Allowance for impairment	**(623,827)**	(626,963)
	15,106,658	15,053,454

(b) The analysis of Islamic financing and investment products measured at amortised cost by industry sector is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Manufacturing	**1,767,033**	1,878,933
Construction	**1,446,772**	1,875,799
Trade	**980,457**	1,001,147
Transport and communication	**193,544**	291,898
Services	**2,679,761**	2,692,387
Financial institutions	**1,164,133**	1,098,307
Personal	**5,001,041**	4,331,202
Residential mortgage	**1,286,882**	1,202,193
Government and related enterprises	**3,010,950**	2,840,551
Total	**17,530,573**	17,212,417
Less: Unearned income	**(1,800,088)**	(1,532,000)
Allowance for impairment	**(623,827)**	(626,963)
	15,106,658	15,053,454

8 Islamic financing and investment products measured at amortised cost (continued)

(c) The analysis of allowance for impairment on Islamic financing and investment products measured at amortised cost by industry sector is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Manufacturing	**5,215**	7,957
Construction	**381,444**	378,133
Trade	**109,884**	109,196
Transport and communication	**5,387**	7,885
Services	**6,674**	17,002
Financial institutions	**2,628**	3,707
Personal	**14,836**	11,299
Residential mortgage	**44,255**	36,947
Government and related enterprises	**53,504**	54,837
	623,827	626,963

(d) The movement in the allowance for impairment of Islamic financing and investment products measured at amortised cost are as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Balance at the beginning of the period / year	**626,963**	407,330
Impairment allowance for the period / year	**(8,215)**	203,822
Profit in suspense	**5,007**	16,042
Exchange rate and other adjustments	**72**	-
Written off during the period / year	**-**	(231)
Balance at the end of the period / year	**623,827**	626,963

(e) The allowance for impairment includes a specific provision of AED 577 million for stage 3 Islamic financing and investment exposure of the Group as at 31 March 2022 (31 December 2021: AED 564 million).

9 Investment properties

	31 March 2022 (un-audited) AED '000	31 December 2021 (audited) AED '000
At fair value		
Balance at beginning of the period / year	**462,829**	449,715
Change in fair value during the period	**-**	13,114
Balance at the end of the period / year	**462,829**	462,829

All of the Group's investment properties are freehold properties and located in the U.A.E.

The fair value of investment properties as at 31 December 2021 has been arrived at on the basis of valuations carried out by third party valuers and also are in accordance with the Royal Institute of Chartered Surveyor (RICS) Valuation Standards. The valuers performing the valuation have necessary qualifications, skills, understanding and knowledge to undertake the valuation competently and possess recent market experience in the valuation of properties in the United Arab Emirates. The valuers are not related to the Group. The fair value of the Group's investment properties is based on unobservable market inputs, i.e. Level 3. Management has assessed the fair value of investment properties and the carrying value approximately the fair value as at 31 March 2022.

10 Property and equipment

During the period, the Group purchased AED 29 million (period ended 31 March 2021: AED 29 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 9 million (period ended 31 March 2021: AED 4 million).

11 Deposits and balances due to banks

The analysis of deposits and balances due to banks is as follows:

	31 March 2022 (un-audited) AED '000	31 December 2021 (audited) AED '000
Time	**14,828,867**	13,947,840
Demand	**4,897,132**	3,192,445
Overnight	**3,135,057**	2,426,201
	22,861,056	19,566,486

12 Customers' deposits

The analysis of customers' deposits is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Current and other accounts	**58,229,537**	50,248,066
Saving accounts	**6,188,015**	6,109,303
Time deposits	**25,659,140**	30,793,533
	90,076,692	87,150,902

13 Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Current and other accounts	**3,941,509**	3,586,227
Saving accounts	**201,700**	191,227
Time deposits	**10,008,239**	10,554,633
	14,151,448	14,332,087

14 Medium-term notes

	31 March 2022 (un-audited) AED '000	31 December 2021 (audited) AED '000
Medium term notes	**6,821,360**	7,315,119

The maturities of the medium-term notes (MTNs) issued under the programme are as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Year		
2022	**1,609,195**	2,095,531
2023	**387,052**	389,753
2024	**3,983,339**	3,989,012
2025	**811,891**	799,917
2029	**29,883**	40,906
	6,821,360	7,315,119

The Group established a Euro Medium Term Note (EMTN) programme for USD 5 billion (AED 18.37 billion) under an agreement dated 15 March 2010.

During the three month period ended 31 March 2022, medium-term notes of AED 0.4 billion were redeemed.

15 Issued and paid up capital

At the general meeting held on 9 November 2021, the shareholders approved increase in the share capital of the Bank to AED 2,006,098,300 by issuing 23,079,007 bonus shares based on the existing face value of AED 10 per share, which is a non cash transaction.

As at 31 March 2022, 200,609,830 ordinary shares of AED 10 each (31 December 2021: 200,609,830 ordinary shares of AED 10 each) were fully issued and paid up.

At the Annual General Meeting of the shareholders held on 20 April 2022, the shareholders approved a cash dividend of 10% for the year ended 31 December 2021 (31 December 2020: cash dividend of nil) of the issued and paid up capital amounting to AED 201 million.

16 Non-controlling interests

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
At beginning of the period/year	**796,062**	757,680
Share of profit for the period/year	**23,953**	73,508
Share of other comprehensive income for the period/year	**16,068**	12,024
Dividend paid	**-**	(32,825)
Transaction with NCI	**-**	(14,325)
At end of the year	**836,083**	796,062

17 General and administrative expenses

General and administrative expenses include senior management remuneration and director fees of AED 13 million for the three month period ended 31 March 2022 (three month period ended 31 March 2021 : AED 10 million).

18 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 period.

	For the three month period ended	
	31 March 2022 (un-audited)	31 March 2021 (un-audited)
Profit for the period (AED'000) (Attributed to owners of the Parent)	**606,132**	42,985
Weighted average number of shares in issue	**200,609,830**	200,609,830
Basic earnings per share (AED)	**3.02**	0.24

In accordance with IAS 33 "Earnings Per Share", the impact of bonus shares issued have been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

There were no potentially dilutive shares as of 31 March 2022 and 31 March 2021.

19 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central banks, certificates of deposits, balances with banks and money market placements which are maturing within three months from the date of the deposit or placement, as below.

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000	31 March 2021 (un-audited) AED'000
Cash on hand	**1,088,791**	1,027,306	974,000
Current accounts and other balances with central banks	**8,618,532**	9,223,621	5,859,019
Certificates of deposit maturing within 3 months	**2,600,000**	2,800,000	-
Deposits and balances due from banks maturing within 3 months	**9,803,392**	8,251,111	11,651,592
	22,110,715	21,302,038	18,484,611

20 Contingent liabilities and commitments

The analysis of the Group's contingent liabilities is as follows:

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Guarantees	**32,574,093**	33,706,515
Letters of credit	**19,262,294**	15,785,785
Irrevocable undrawn credit facilities commitments	**9,461,753**	7,950,047
	61,298,140	57,442,347

Notes to the condensed consolidated interim financial information for the period from 1 January 2022 to 31 March 2022 (continued)

21 Derivative financial instruments

31 March 2022 (un-audited)

	Positive fair value AED'000	Negative fair value AED'000	Notional Amount AED'000
Held for trading:			
Forward foreign exchange contracts	**404,134**	**399,460**	**77,403,320**
Foreign exchange options (bought)	**4,022**	**3,795**	**753,945**
Foreign exchange options (sold)	**-**	**-**	**202,479**
Credit default swaps	**-**	**543**	**29,384**
Interest rate swaps	**1,017,787**	**720,985**	**33,421,450**
Futures contracts purchased (Customer)	**52,628**	**83,136**	**2,079,073**
Futures contracts sold (Customer)	**6,990**	**406**	**285,667**
Futures contracts sold (Bank)	**698**	**7,025**	**372,299**
Futures contracts purchased (Bank)	**83,210**	**52,738**	**2,092,716**
	1,569,469	**1,268,088**	**116,640,333**
Held as fair value / cash flow hedges:			
Cross currency swaps	**97,173**	**42,638**	**1,951,278**
	1,666,642	**1,310,726**	**118,591,611**

31 March 2022 (un-audited)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Other assets				
Positive fair value of derivatives	**-**	**1,666,642**	**-**	**1,666,642**
Other liabilities				
Negative fair value of derivatives	**-**	**1,310,726**	**-**	**1,310,726**

21 Derivative financial instruments (continued)

31 December 2021 (audited)

	Positive fair value AED'000	**Negative fair value** AED'000	**Notional amount** AED'000
Held for trading:			
Forward foreign exchange contract	249,452	194,982	56,973,978
Foreign exchange options (bought)	-	336	1,880,243
Foreign exchange options (sold)	513	-	1,622,613
Interest rate swaps	606,997	662,173	34,035,738
Credit default swaps	237	271	55,095
Futures contracts purchased (Customer)	47,450	23,481	1,208,485
Futures contracts sold (Customer)	142	1,301	47,595
Futures contracts purchased (Bank)	1,301	142	47,595
Futures contracts sold (Bank)	23,481	47,451	1,217,320
	929,573	930,137	97,088,662
Held as fair value /cash flow hedges:			
Cross currency swaps	98,613	40,123	1,960,813
	1,028,186	970,260	99,049,475

31 December 2021 (audited)

	Level 1 AED'000	**Level 2** AED'000	**Level 3** AED'000	**Total** AED'000
Other assets				
Positive fair value of derivatives	-	1,028,186	-	1,028,186
Other liabilities				
Negative fair value of derivatives	-	970,260	-	970,260

Derivatives with positive fair value and negative fair value are included in other assets balance and other liabilities balance respectively.

There were no transfers between levels during the period.

22 Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim financial information for the three month period ended 31 March 2022 and 2021 respectively.

23 Related party transactions

(a) Certain related parties (such as, directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group 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. Such related party transactions are disclosed below.

(b) Related party balances included in the condensed consolidated statement of financial position are as follows:

	31 March 2022 AED'000 (un-audited)	31 December 2021 AED'000 (audited)
Balances with major shareholders		
Loans and advances and islamic financing and investment products measured at amortised cost	**3,046,336**	2,810,150
Deposits/ financial instruments under lien	**1,083,092**	1,029,236
Letter of credit and guarantees	**1,524,993**	1,854,305
Balances with directors and key management personnel		
Loans and advances and islamic financing and investment products measured at amortised cost	**93,006**	125,107
Deposits/ financial instruments under lien	**261,792**	230,884
Letter of credit and guarantees	**5,394**	5,369
Balances with associates and joint venture		
Loans and advances and islamic financing and investment products measured at amortised cost	**15,459**	-
Deposits/ financial instruments under lien	**34,268**	-
Letter of credit and guarantees	**169,297**	-

23 Related party transactions (continued)

(c) Profit for the period includes related party transactions as follows:

	31 March 2022 AED'000 (un-audited)	31 March 2021 AED'000 (audited)
Transactions with major shareholders		
Interest income	**18,170**	23,087
Interest expense	**393**	227
Other income	**10,493**	5,279
Transactions with directors and key management personnel		
Interest income	**619**	669
Interest expense	**23**	46
Other income	**102**	303
Transactions with associates and joint venture		
Interest income	**227**	-
Interest expense	**-**	-
Other income	**426**	-

24 Segmental information

IFRS 8 – *Operating Segments* – requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Reportable segments

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO (the Group's chief operating decision maker) in order to allocate resources to the segment and to assess its performance. Information reported to the Group's CEO for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to different markets.

The Group's reportable segments under IFRS 8 are therefore as follows:

1. Corporate and Investment Banking segment comprises of domestic corporate and commercial banking. It also includes global Financial Institution business. It offers complete suite of corporate banking products such as Trade finance, contracting finance, project finance, investment banking, cash management, correspondent banking, etc.

2. The Retail segment includes products and services offered to individuals or small businesses within U.A.E and Egypt. The product offerings to customers include, current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, private banking and wealth management services.

3. The Treasury & Capital Markets segment consists of customer flow business and proprietary business and funding centre management. Customer flow business includes transactions for foreign exchange, derivatives, margin FX, futures, hedging, investment products, domestic equities (brokerage) and asset management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

4. The International Banking segment consists of Corporate business for the Group's overseas banking branches. Product range covers complete suite similar to domestic corporate.

5. All Islamic banking products offered to customers are included under the Islamic Banking segment. These products are Ijarah Home Finance, Mudarabah Deposit, Mudarabah savings account, Musharaka finance, Murabaha commodity finance, Ijarah Equipment Finance, Sukuk Underwriting, Musharaka LC, Murabaha LC, TR Murabaha, Kafala, Wakalah Deposit, Reverse Murabaha Deposit & Sukuk Advisory.

24 Segmental information (continued)

Reportable segments (continued)

6. The Insurance subsidiary, Oman Insurance Company (PSC) Group – comprises the Insurance segment. The product offerings to customers include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance.

7. Other consists of Head office and certain investments and assets held centrally due to their strategic significance to the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and tax expenses.

Notes to the condensed consolidated interim financial information for the period from 1 January 2022 to 31 March 2022
(continued)

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2022 to 31 March 2022 (un-audited)							
	Corporate & Investment banking AED'000	Retail AED'000	Treasury & capital markets AED'000	Islamic banking AED'000	International banking AED'000	Insurance AED'000	Other AED'000	Total AED'000
Net interest income and earnings from Islamic products	278,793	265,547	55,780	82,024	90,547	20,176	36,247	829,114
Other income, net	232,177	202,471	132,079	16,704	18,854	129,386	3,097	734,768
Operating income	510,970	468,018	187,859	98,728	109,401	149,562	39,344	1,563,882
General and administrative expenses								(669,820)
Operating profit before impairment								894,062
Allowances for impairment, net								(252,141)
Profit before taxes								641,921
Tax expense								(11,836)
Profit for the period								630,085
Attributed to:								
Owners of the Parent								606,132
Non-controlling interests								23,953
								630,085
	31 March 2022 (un-audited)							
Segment Assets	64,782,234	17,511,357	40,735,637	15,116,566	16,030,794	7,994,140	20,410,528	182,581,256
Segment Liabilities	57,041,608	37,970,007	17,290,868	14,789,919	11,074,345	5,764,546	17,444,403	161,375,696

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2021 to 31 March 2021(un-audited)							
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**Islamic banking** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	240,112	234,846	34,629	61,282	91,902	19,825	15,135	697,731
Other income, net	179,039	156,953	174,772	21,349	53,242	127,875	(1,743)	711,486
Operating income	419,151	391,799	209,401	82,631	145,144	147,700	13,392	1,409,217
General and administrative expenses								(619,931)
Operating profit before impairment								789,286
Allowances for impairment, net								(710,807)
Profit before taxes								78,479
Tax expense								(14,092)
Profit for the period								64,387
Attributed to:								
Owners of the Parent								42,985
Non-controlling interests								21,402
								64,387
	31 December 2021 (audited)							
Segment Assets	61,650,177	17,263,207	36,209,355	15,093,871	18,634,754	7,466,493	20,735,752	177,053,609
Segment Liabilities	51,973,472	36,727,897	17,472,601	15,033,770	11,887,394	5,305,995	17,628,193	156,029,322

25 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Valuation techniques and assumptions applied for the purposes of measuring fair value.

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2021.

Fair value of the Group’s financial assets that are measured at fair value on recurring basis.

Some of the Group’s financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined:

25 Fair value of financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Other financial assets	**Fair value as at**					
	31 March 2022	31 December 2021	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	(un-audited)	(audited)				
	AED'000	AED'000				
Other financial assets measured at FVTPL						
Quoted debt investments	**328,724**	257,064	Level 1	Quoted bid prices in an active market	None	Not applicable
Quoted equity investments	**36,761**	37,668	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted debt investments	**1,271,498**	1,291,065	Level 2	Based on the recent similar transaction in market	None	Not applicable
Mutual and other funds	**642,881**	686,534	Level 2	Quoted prices in secondary market.	None	Not applicable
Unquoted equity investments	**958**	1,113	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	2,280,822	2,273,444				

25 Fair value of financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Other financial assets	**Fair value as at**					
	31 March 2022	31 December 2021				
	(un-audited)	(audited)				
	AED'000	AED'000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
Other financial assets measured at FVTOCI						
Quoted equity investments	**661,591**	577,857	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted debt investments	**545,275**	559,930	Level 3	Based on the recent similar transaction in market.	None	Not applicable
Quoted debt investments	**10,789,135**	12,920,789	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted equity investments	**66,393**	53,589	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
Mutual and other funds	**54,836**	55,514	Level 2	Quoted prices in secondary market.	None	Not applicable.
	12,117,230	14,167,679				
	14,398,052	16,441,123				

There were no transfers between Level 1 and 2 during the period.

Notes to the condensed consolidated interim financial information for the period from 1 January 2022 to 31 March 2022 (continued)

25 Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTPL

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Balance at the beginning of the period / year	**1,113**	1,112
Purchases	**-**	-
Disposals	**-**	-
Change in fair value	**(155)**	1
Balance at the end of the period / year	**958**	1,113

Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTOCI

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Balance at the beginning of the period / year	**613,519**	615,541
Purchases	**12,856**	7,933
Disposals	**-**	(1,118)
Change in fair value	**(14,707)**	(8,837)
Balance at the end of the period / year	**611,668**	613,519

Gains and losses included in condensed consolidated statement of comprehensive income include unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investment revaluation reserve'.

26 Capital adequacy ratio

As per the Central bank regulation for Basel III, the capital requirement as at 31 March 2022 is 13% inclusive of capital conservation buffer of 2.5%. However, as per the standards for issued by CBUAE for TESS program due to the COVID-19 crisis, banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, effective from 15 March 2020 until 30 June 2022.

The Bank is required to comply with the following minimum requirement:

(i) CET1 must be at least 7% of risk weighted assets (RWA);
(ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and
(iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).
(iv) In addition, banks are required to maintain a capital conservation buffer (CCB) of 2.5% of risk weighted assets (RWA) in the form of CET 1.

The capital adequacy ratio is computed based on circulars issued by the U.A.E. Central Bank as per Basel III.

	31 March 2022 (un-audited) AED'000	31 December 2021 (audited) AED'000
Capital base		
Tier 1 capital	**19,918,250**	19,785,886
Tier 2 capital	**1,779,552**	1,693,975
Total capital base (A)	**21,697,802**	21,479,861
Risk-weighted assets		
Credit risk	**142,364,153**	135,518,028
Market risk	**3,130,974**	3,206,199
Operational risk	**9,444,816**	9,444,817
Total risk-weighted assets (B)	**154,939,943**	148,169,044
Capital adequacy ratio (%) [(A)/(B) x 100]	**14.00%**	14.50%

27 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the condensed consolidated interim financial information as at and for the three-month period ended 31 March 2022.

28 Approval of condensed consolidated interim financial information

The condensed consolidated interim financial information on pages 2 to 64 were approved by the Board of Directors on 27 April 2022.

Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2021

These audited consolidated financial statements are subject to approval of the Central Bank of U.A.E and adoption by shareholders at the annual general meeting.

Mashreqbank PSC Group

Report and consolidated financial statements
for the year ended 31 December 2021

Contents **Pages**

Board of Directors' report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2021.

Incorporation and registered offices

Mashreqbank PSC was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The address of the registered office is P.O. Box 1250, Dubai, United Arab Emirates.

Principal activities

The principal activities of the Bank are retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management. These activities are carried out through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

Financial position and results

The financial position and results of the Group for the year ended 31 December 2021 are set out in the accompanying consolidated financial statements.

Dividend

The Board of Directors has proposed a cash dividend of 10% for the year ended 31 December 2021 at the meeting held on 31 January 2022.

Directors

The following are the Directors of the Bank as at 31 December 2021

Chairman:	H.E. Abdul Aziz Abdulla Al Ghurair
Vice Chairman:	Ali Rashed Ahmad Lootah
Directors:	Rashed Saif Saeed Al Jarwan Al Shamsi
	Rashed Saif Ahmed Al Ghurair
	John Gregory Iossifidis
	Iyad Mazher Saleh Malas
	Saeed Saif Ahmed Majid Al Ghurair

Auditors

The consolidated financial statements for the year ended 31 December 2021 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors

H.E. Abdul Aziz Abdulla Al Ghurair
Chairman
31 January 2022

Independent auditor's report to the shareholders of Mashreqbank PSC Group

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 Mashreqbank PSC (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2021, 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 2021;
- 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 Mashreqbank PSC Group (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 the Directors 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.

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Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses The Group applies Expected Credit Losses (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 computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2021: ▸ 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. ▸ 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. The appropriateness of the model methodology was assessed, giving specific consideration to COVID-19 and the judgement overlay. • Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.

Our audit approach (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 collateral. The Group's impairment policy under IFRS 9 is presented in Note 3.14 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 which have significantly increased as a result of Covid-19, affecting the staging criteria applied to the financial assets as well as in developing ECL models and assumptions for calculating its impairment provisions.	• For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral. In addition, for the Stage 3 corporate 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 file. For the Stage 3 retail portfolio, assumptions were independently assessed for each product category and an independent view was formed on the levels of provisions recognised. We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9 and the disclosures made relating to the impact of COVID-19 on ECL.

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Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Other information

The Directors are responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Chairman's Report, Corporate Governance Report and Financial Highlights, which are 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 Chairman's Report, Corporate Governance Report and Financial Highlights, 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 internai control as the Directors determine 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.

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Independent auditor's report to the shareholders of Mashreqbank PSC Group (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.

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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 internai 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.

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, as amended, 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. (2) of 2015 as amended;

(iii) the Group has maintained proper books of account;

(iv) the financial information included in the Directors' report is consistent with the books of account of the Group;

(v) note 7 to the consolidated financial statements discloses the shares purchased by the Group during the year ended 31 December 2021;

(vi) note 37 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Report on other legal and regulatory requirements (continued)

(vii) Note 32 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2021; and

(viii) 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 financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, or in respect of the Bank, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2021.

Further, as required by 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
31 January 2022

Douglas O'Mahony
Registered Auditor Number 834
Place: Dubai, United Arab Emirates

Consolidated statement of financial position

		As at 31 December			
		2021		2020	
	Notes	AED'OOO	USD'OOO Equivalent	AED'OOO	USD'OOO Equivalent
ASSETS					
Cash and balances with central banks	5	**17,507,751**	**4,766,608**	17,941,941	4,884,819
Deposits and balances due from banks	6	**28,805,095**	**7,842,389**	28,239,030	7,688,274
Other financial assets measured at fair value	7	**16,441,123**	**4,476,211**	8,439,103	2,297,605
Other financial assets measured at amortised cost	7	**10,277,824**	**2,798,210**	11,000,654	2,995,005
Loans and advances measured at amortised cost	8	**6;6,432,570**	**18,086,733**	57,286,411	15,596,627
Islamic financing and investment products measured at amortised cost	9	**15,053,454**	**4,098,408**	14,246,343	3,878,667
Acceptances		**14,340,671**	**3,904,348**	12,767,461	3,476,031
Other assets	10	**3,290,085**	**895,749**	3,478,455	947,035
Reinsurance contract assets	20	**2,699,966**	**735,085**	2,891,920	787,345
Investment in associate		**34,809**	**9,477**	20,996	5,716
Investment properties	11	**462,829**	**126,008**	449,715	122,438
Property and equipment	12	**1,426,096**	**388,265**	1,466,769	399,338
Intangible assets	13	**281,336**	**76,596**	294,442	80,164
Total assets		**177,053,609**	**48,204,087**	158,523,240	43,159,064
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	14	**19,566,486**	**5,327,113**	14,844,380	4,041,487
Repurchase agreements with banks	15	**?,729,147**	**743,029**	2,289,723	623,393
Customers' deposits	16	**87,150,902**	**23,727,444**	76,375,973	20,793,894
Islamic customers' deposits	17	**14,332,087**	**3,902,011**	11,884,566	3,235,656
Acceptances		**14,340,671**	**3,904,348**	12,767,461	3,476,031
Other liabilities	18	**(„028,308**	**1,641,249**	5,808,908	1,581,516
Medium-term loans	19	**7,315,119**	**1,991,593**	9,616,042	2,618,035
Insurance contract liabilities	20	**,566,602**	**1,243,290**	4,747,779	1,292,616
Total liabilities		**156,029,322**	**42,480,077**	138,334,832	37,662,628
EQUITY					
Capital and reserves					
Issued and paid up capital	21(a)	**2,006,098**	**546,174**	1,775,308	483,340
Statutory and legal reserves	21(b)	**1,012,320**	**275,611**	912,099	248,325
General reserve	21(c)	**312,000**	**84,944**	312,000	84,944
Currency translation reserve	21(d)	**(116,116)**	**(31,613)**	(98,332)	(26,771)
Investments revaluation reserve	21(e)	**(547,489)**	**(149,058)**	(358,088)	(97,492)
Cash flow hedge reserve	21(f)	**-**	**-**	(437)	(119)
Retained earnings		**17,561,412**	**4,781,218**	16,888,178	4,597,925
Equity attributable to owners of the Parent		**20,228,225**	**5,507,276**	19,430,728	5,290,152
Non-controlling interests	22	**796,062**	**216,734**	757,680	206,284
Total equity		**21,024,287**	**5,724,010**	20,188,408	5,496,436
Total liabilities and equity		**177,053,609**	**48,204,087**	158,523,240	43,159,064

To the best of our knowledge, the consolidated financial statements present fairly in all material respects the financial condition, results of operation and cashflows of the Group as of and for, the periods presented therein.

Abdul Aziz Abdulla Al Ghurair
Chairman

Ahmed Abdelaal
Group Chief Executive Officer

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

Mashreqbank PSC Group

Consolidated statement of profit or loss

		For the year ended 31 December			
		2021		2020	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Interest income	24	**4,251,824**	**1,157,589**	4,514,924	1,229,220
Income from Islamic financing and investment products	25	**475,253**	**129,391**	543,477	147,965
Total interest income and income from Islamic financing and investment products		**4,727,077**	**1,286,980**	5,058,401	1,377,185
Interest expense	26	**(1,505,704)**	**(409,939)**	(2,110,697)	(574,652)
Distribution to depositors – Islamic products	27	**(175,884)**	**(47,886)**	(271,404)	(73,892)
Net interest income and income from Islamic products net of distribution to depositors		**3,045,489**	**829,155**	2,676,300	728,641
Fee and commission income	28	**3,418,086**	**930,598**	2,642,536	719,449
Fee and commission expenses	28	**(1,841,287)**	**(501,303)**	(1,423,024)	(387,428)
Net fee and commission income		**1,576,799**	**429,295**	1,219,512	332,021
Net investment income	29	**176,807**	**48,137**	321,380	87,498
Other income, net	30	**1,006,977**	**274,157**	931,072	253,491
Operating income		**5,806,072**	**1,580,744**	5,148,264	1,401,651
General and administrative expenses	32	**(2,622,957)**	**(714,119)**	(2,944,856)	(801,758)
Operating profit before impairment		**3,183,115**	**866,625**	2,203,408	599,893
Allowances for impairment, net	31	**(2,058,626)**	**(560,475)**	(3,356,819)	(913,918)
Profit/(loss) before tax		**1,124,489**	**306,150**	(1,153,411)	(314,025)
Tax expense		**(48,778)**	**(13,280)**	(51,840)	(14,114)
Profit/(loss) for the year		**1,075,711**	**292,870**	(1,205,251)	(328,139)
Attributable to:					
Owners of the Parent		**1,002,203**	**272,857**	(1,277,826)	(347,897)
Non-controlling interests		**73,508**	**20,013**	72,575	19,758
		1,075,711	**292,870**	(1,205,251)	(328,139)
Earnings/(loss) per share	33	**AED 5.56**	**USD 1.51**	AED (7.09)	USD (1.93)

Mashreqbank PSC Group

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2021		2020	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Profit/(loss) for the year	**1,075,711**	**292,870**	(1,205,251)	(328,139)
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments) [Note 7(k)]	**58,631**	**15,963**	(30,966)	(8,431)
Items that may be reclassified subsequently to profit or loss:				
Changes in currency translation reserve	**(23,150)**	**(6,303)**	(13,072)	(3,559)
Changes in fair value of financial assets measured at fair value through other comprehensive income (debt instruments) [Note 7(k)]	**(232,616)**	**(63,332)**	(73,325)	(19,963)
Loss/(gain) on hedging instruments designated as hedges of net investment in foreign operations	**(1,586)**	**(432)**	716	196
Cash flow hedges - fair value loss arising during the year [Note 21(f)]	**437**	**120**	(4,729)	(1,288)
Total other comprehensive loss for the year	**(198,284)**	**(53,984)**	(121,376)	(33,045)
Total comprehensive income/(loss) for the year	**877,427**	**238,886**	(1,326,627)	(361,184)
Attributable to:				
Owners of the Parent	**791,895**	**215,599**	(1,391,731)	(378,909)
Non-controlling interests	**85,532**	**23,287**	65,104	17,725
	877,427	**238,886**	(1,326,627)	(361,184)

Mashreqbank PSC Group

Consolidated statement of changes in equity

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cash flow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2020	1,775,308	907,714	312,000	(88,720)	(273,595)	4,292	18,895,583	21,532,582	710,348	22,242,930
Loss for the year ended 31 December 2020	-	-	-	-	-	-	(1,277,826)	(1,277,826)	72,575	(1,205,251)
Other comprehensive loss for the year	-	-	-	(9,612)	(99,564)	(4,729)	-	(113,905)	(7,471)	(121,376)
Total comprehensive loss for the year	-	-	-	(9,612)	(99,564)	(4,729)	(1,277,826)	(1,391,731)	65,104	(1,326,627)
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	15,071	-	(15,071)	-	-	-
Transfer to statutory and legal reserves	-	4,385	-	-	-	-	(4,385)	-	-	-
Transaction with non-controlling interest (NCI)	-	-	-	-	-	-	-	-	(17,772)	(17,772)
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710,123)	(710,123)	-	(710,123)
Balance at 31 December 2020	1,775,308	912,099	312,000	(98,332)	(358,088)	(437)	16,888,178	19,430,728	757,680	20,188,408
Profit for the year ended 31 December 2021	**-**	**-**	**-**	**-**	**-**	**-**	**1,002,203**	**1,002,203**	**73,508**	**1,075,711**
Other comprehensive loss/(income) for the year	**-**	**-**	**-**	**(17,784)**	**(192,962)**	**437**	**-**	**(210,309)**	**12,024**	**(198,285)**
Total comprehensive income for the year	**-**	**-**	**-**	**(17,784)**	**(192,962)**	**437**	**1,002,203**	**791,894**	**85,532**	**877,426**
Transfer from investments revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**3,561**	**-**	**(3,561)**	**-**	**-**	**-**
Transfer to statutory and legal reserves	**-**	**100,221**	**-**	**-**	**-**	**-**	**(100,221)**	**-**	**-**	**-**
Bonus shares issued during the year	**230,790**	**-**	**-**	**-**	**-**	**-**	**(230,790)**	**-**	**-**	**-**
Transaction with common control entity	**-**	**-**	**-**	**-**	**-**	**-**	**5,603**	**5,603**		**5,603**
Transaction with non-controlling interest (NCI) (Note 22)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,325)**	**(14,325)**
Payment of dividends (Note 22)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(32,825)**	**(32,825)**
Balance at 31 December 2021	**2,006,098**	**1,012,320**	**312,000**	**(116,116)**	**(547,489)**	**-**	**17,561,412**	**20,228,225**	**796,062**	**21,024,287**

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

Mashreqbank PSC Group

Consolidated statement of cash flows

		For the year ended 31 December			
		2021		2020	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from operating activities					
Profit/(loss) before taxation for the year		**1,124,489**	**306,150**	(1,153,411)	(314,025)
Adjustments for:					
Depreciation and amortisation	32	**255,569**	**69,580**	231,963	63,154
Allowances for impairment, net	31	**2,058,626**	**560,475**	3,356,819	913,919
Gain on disposal of property and equipment	30	**3,447**	**939**	(8,110)	(2,208)
Unrealised gain on other financial assets held at FVTPL	29	**(8,521)**	**(2,320)**	(9,564)	(2,604)
Fair value adjustments of investment properties	30	**(13,114)**	**(3,571)**	23,876	6,500
Net realized gain from sale of other financial assets measured at FVTPL	29	**(28,305)**	**(7,706)**	(43,145)	(11,747)
Dividend income from other financial assets measured at FVTOCI	29	**(21,337)**	**(5,809)**	(24,961)	(6,796)
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	29	**(117,603)**	**(32,018)**	(242,328)	(65,976)
Share of loss from associate		**(7,090)**	**(1,930)**	(8,359)	(2,276)
Unrealised (gain)/loss on derivatives	30	**(30,724)**	**(8,365)**	19,602	5,337
Operating cash flows before tax paid and changes in operating assets and liabilities		**3,215,437**	**875,425**	2,142,382	583,278
Tax paid		**(48,778)**	**(13,280)**	(51,840)	(14,114)
Changes in operating assets and liabilities					
Decrease/(increase) in deposits with central banks		**4,363,482**	**1,187,989**	(346,953)	(94,460)
Increase in deposits and balances due from banks maturing after three months		**(4,029,531)**	**(1,097,068)**	(309,339)	(84,220)
(Increase)/decrease in loans and advances measured at amortised cost		**(10,926,602)**	**(2,974,844)**	1,755,721	478,007
Increase in Islamic financing and investment products measured at amortised cost		**(984,092)**	**(267,926)**	(102,448)	(27,892)
Decrease/(increase) in reinsurance assets		**191,954**	**52,261**	(306,002)	(83,311)
Decrease/(increase) in other assets		**219,532**	**59,769**	(1,089,214)	(296,546)
(Increase)/decrease in financial assets carried at FVTPL		**(783,251)**	**(213,246)**	3,893	1,060
Increase in repurchase agreements with banks		**439,424**	**119,636**	1,201,186	327,031
Increase/(decrease) in customers' deposits		**10,774,929**	**2,933,550**	(63,599)	(17,315)
Increase/(decrease) in Islamic customers' deposits		**2,447,522**	**666,356**	(2,644,695)	(720,037)
Increase in deposits and balances due to banks		**4,722,106**	**1,285,626**	3,659,885	996,429
(Decrease)/increase in insurance contract liabilities		**(181,177)**	**(49,327)**	493,990	134,493
Increase in other liabilities		**120,435**	**32,789**	858,350	233,692
Net cash generated from operating activities		**9,541,390**	**2,597,710**	5,201,317	1,416,095

Consolidated statement of cash flows (continued)

	Notes	For the year ended 31 December 2021 AED'000	2021 USD'000 Equivalent	2020 AED'000	2020 USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	12	**(129,216)**	**(35,180)**	(336,461)	(91,604)
Purchase on intangible assets	13	**(82,298)**	**(22,406)**	(137,468)	(37,427)
Proceeds from sale of property and equipment		**1,441**	**393**	117,500	31,990
Purchase of other financial assets measured at fair value or amortised cost		**(40,877,370)**	**(11,129,151)**	(12,740,338)	(3,468,646)
Proceeds from sale of other financial assets measured at fair value or amortised cost		**34,330,239**	**9,346,648**	8,885,295	2,419,084
Dividend income from other financial assets measured at FVTOCI	29	**21,337**	**5,809**	24,961	6,796
Investment in associate		**(13,813)**	**(3,761)**	-	-
Net cash used in investing activities		**(6,749,680)**	**(1,837,648)**	(4,186,511)	(1,139,807)
Cash flows from financing activities					
Transaction with NCI		**(14,325)**	**(3,900)**	(17,772)	(4,839)
Dividend paid		**(32,825)**	**(8,937)**	(710,123)	(193,336)
Medium term notes issued		**-**	**-**	2,355,258	641,236
Medium term notes redeemed		**(2,300,922)**	**(626,442)**	(4,577,973)	(1,246,385)
Net cash used in financing activities		**(2,348,072)**	**(639,279)**	(2,950,610)	(803,324)
Net increase/(decrease) in cash and cash equivalents		**443,638**	**120,783**	(1,935,804)	(527,036)
Net foreign exchange difference		**17,784**	**4,842**	9,613	2,617
Cash and cash equivalents at 1 January		**20,840,616**	**5,674,004**	22,766,807	6,198,423
Cash and cash equivalents at 31 December	35	**21,302,038**	**5,799,629**	20,840,616	5,674,004

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

1 General information

Mashreqbank PSC (the "Bank") was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank carries on retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management activities through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries (collectively the "Mashreqbank PSC Group" or "Group"), as listed in Note 36.

The address of the Bank's registered office is P.O. Box 1250, Dubai, United Arab Emirates.

2 Application of new and revised International Financial Reporting Standards ("IFRS")

2.1 New and revised IFRS applied on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2021, 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 years.

- **Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** - The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

    - Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

    - End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

2 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.1 New and revised IFRS applied on the consolidated financial statements (continued)

- **Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

  - Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

  - Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

  Refer to page 144 of the financial statements for the impact of IBOR reform on the Group.

- **Amendment to IFRS 16, 'Leases' - Covid-19 related rent concessions** - As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS issued but not yet effective and not early adopted

The Group has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New standards, amendments and interpretations	Effective for annual periods beginning on or after
IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows. Management expects that the adoption of IFRS 17 will have an impact on the amounts reported and disclosures made in these consolidated financial statements in respect of its insurance contracts issued and reinsurance contracts held. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Group performs a detailed review. Management has completed the gap analysis in relation to this standard and is currently in the process of performing a detailed assessment of the impact of the above new standard on the Group's consolidated financial statements. Due to the short term nature of the majority of the contracts issued by the Group, the Premium Allocation Approach (PAA) model will be applied and the general model / variable fee approach model will be applied to the insurance contracts that do not meet the PAA eligibility criteria.	1 January 2023

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS issued but not yet effective and not early adopted (continued)

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **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. The impact of the above amendment is expected to be immaterial on the consolidated financial statements of the Group.	Deferred until accounting periods starting not earlier than 1 January 2024
• **Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 9 and IFRS 16** Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'. The impact of the above amendments is expected to be immaterial on the consolidated financial statements of the Group.	1 January 2022

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS issued but not yet effective and not early adopted (continued)

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8** - The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The impact of the above amendments is expected to be immaterial on the consolidated financial statements of the Group.	1 January 2023
• **Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction -** These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023

There are no other relevant applicable new standards and amendments to published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2021 that would be expected to have a material impact on the consolidated financial statements of the Group.

3 Summary of significant accounting policies

3.1 Statement of compliance

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 Group is required, for the year ended 31 December 2021, to be in compliance with the provisions of the UAE Federal Law No. 2 of 2015, as amended.

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Group has 12 months from 2 January 2022 to comply with the provisions of the UAE Federal Decree Law No 32 of 2021.

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments, including derivatives, investment properties and reserves for unit linked policies which are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands AED, except where otherwise indicated.

The accounting policies used in the preparation of this consolidated financial statements are consistent with those audited annual consolidated financial statements for the year ended 31 December 2020.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

3 Summary of significant accounting policies (continued)

3.3 Basis of 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:

- 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 raising 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/or 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 statement of profit or loss 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 attributable 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.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

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 shareholders of the Parent.

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to the consolidated statement of profit or loss or transferred directly to retained earnings.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in the consolidated statement of profit or loss.

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.

Business combinations

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.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Business combinations (continued)

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated statement profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

Investment in joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Investment in joint venture (continued)

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, any retained interest in the joint venture or business is remeasured to its fair value at the date when control is lost, with the change in the carrying amount recognised in the statement of comprehensive income. The fair value becomes the initial carrying amount for the purposes of subsequent accounting for the retained interest as a joint venture. In addition, any amounts previously recognised in other comprehensive income in respect of that entity or business are accounted for as if the related assets or liabilities have been directly disposed off. If the ownership in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the statement of profit or loss where appropriate.

3.4 Goodwill

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.3 above) 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.

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.

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition

(a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments is calculated by applying the effective interest rate (refer Note 3.14.1) to the gross carrying amount of the financial instrument, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision) and are recognised within 'interest income' and 'interest expense' in the consolidated statement of profit or loss.

(b) Income from Islamic financing and investments products

The Group's policy for recognition of income from Islamic financing and investments products is described in Note 3.20 *(iii)*.

(c) Fee and commission income and expenses

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

(ii) Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(d) Dividend income

Dividend income from investments is recognised in the consolidated statement of profit or loss when the Group's right to receive dividend has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of Income can be measured reliably).

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition (continued)

(e) Insurance contracts revenue and insurance commission income

Premiums are recognised as revenue (earned premium) on time-proportion basis over the effective period of policy coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

Premium on life assurance policies are accounted for on the date of writing of policies and on subsequent due dates.

Insurance commission income is recognised when the policies are written based on the terms and percentages agreed with the reinsurers.

(f) Gain or loss from redemption of medium-term loans

Gain or loss from redemption of medium-term loans represents the difference between the amount paid and the carrying amount of the liability on the date of redemption.

(g) Rental income

Rental income from investment property which are leased under operating leases are recognised on a straight-line basis over the term of the relevant lease.

3.6 Leasing

The group leases various branches, offices and premises for ATMs. Rental contracts are typically made for fixed periods of 12 months to 5 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

3 Summary of significant accounting policies (continued)

3.6 Leasing (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date less any lease incentives received

3.7 Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in UAE Dirham (AED), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

The presentation currency of the Group is the UAE Dirham (AED); however, for presentation purposes only, additional columns for US Dollar (USD) equivalent amounts have been presented in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows and certain notes to the consolidated financial statements using a fixed conversion rate of USD 1.00 = AED 3.673.

In preparing the financial statements of the individual entities, transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3 Summary of significant accounting policies (continued)

3.7 Foreign currencies (continued)

Exchange differences are recognised in the consolidated statement of profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised initially in the foreign currency translation reserve and recognised in consolidated statement of profit or loss on disposal of the net investment.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in AED using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's Currency translation reserve. Such exchange differences are recognised in the consolidated statement of profit or loss in the period in which the foreign operation is disposed.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Bank losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

3 Summary of significant accounting policies (continued)

3.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.9 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the period of retirement or disposal.

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation or commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use. Fair value is determined by open market values based on valuations performed by independent surveyors and consultants or broker’s quotes.

3 Summary of significant accounting policies (continued)

3.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and capital work in progress are not depreciated.

Depreciation is recognised so as to write off the cost of assets (other than land and capital work in progress), using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	Years
Properties for own use	20 – 50
Furniture, fixtures, equipment and vehicles	4 - 15
Improvements to freehold properties and others	5 - 10

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Capital work-in-progress are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3 Summary of significant accounting policies (continued)

3.11 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

3.12 Intangible assets

Intangible assets consists of software which are stated at cost less amortisation and any accumulated impairment losses. Amortisation is charged on a straight lines over the estimated useful lives of 5 to 10 years. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

3 Summary of significant accounting policies (continued)

3.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

3.14 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the consolidated statement of profit or loss. Immediately after initial recognition, an expected credit loss ("ECL") allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVTOCI, as described in note 43, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

3.14.1 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.

Debt instruments:

Debt instruments are measured at amortised cost if both of the following conditions are met:

i. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
ii. the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

All other financial assets except for debt instruments carried at amortized cost are subsequently measured at fair value.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and Interest ('SPPI'), and that are not designated at fair value through profit or loss (FVTPL), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 43.

- Fair value through other comprehensive income (FVTOCI): financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVTOCI. Movements in carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment Income'.

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within 'Net investment income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in 'Net investment income'.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and there were no material reclassification during the year.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

Amortised cost and effective interest method

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(ii) Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 43 provides more detail of how the expected credit loss allowance is measured.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans

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.

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.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans (continued)

Derecognition other than on a modification

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 derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retain a subordinated residual interest.

3.14.2 Financial liabilities

Classification and subsequent measurement

Financial liabilities (including deposits and balances due to banks, repurchase agreements with banks, medium term loans and customer deposits) 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).

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities (continued)

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.

<u>Derecognition</u>

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.

3.14.3 Financial guarantee contracts and loan 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. Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 43).

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.4 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss;

- for financial assets that are monetary items and designated as at FVTOCI, any foreign exchange component is recognized in consolidated statement of profit or loss;

- for financial assets that are non-monetary items and designated as at FVTOCI, any foreign exchange component is recognised in the consolidated statement of comprehensive income; and

- for foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

3.15 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts or when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.16 Derivative financial instruments

The Group deals with derivatives such as forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased). Further details of derivatives financial instruments are disclosed in Note 41. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

3 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments (continued)

(a) Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 *Financial Instruments* (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3.17 Hedge accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 41 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated statement of profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the consolidated statement of profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the consolidate statement of profit or loss from that date.

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in consolidated statement of profit or loss, and is included in the other income line item.

Amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are reclassified to consolidated statement of profit or loss in the periods when the hedged item affects in the recognition of a non-financial assets or a non-financial liability, the gains and losses previously recognised in consolidated statement of comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in the consolidated statement of comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecase transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated statement of profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cumulative translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the cumulative translation reserve are reclassified to the consolidated statement of profit or loss on the disposal of the foreign operation.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts

3.18.1 Product classification

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.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price 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.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime even if the insurance risk reduces significantly during this period unless all rights and obligations are extinguished or expire. An investment contract can however be classified as an insurance contract after its inception if the insurance risk becomes significant.

Some insurance contracts and investment contracts contain discretionary participating features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer;
- that are contractually based on:

    (i) the performance of a specified pool of contracts or a specified type of contract,
    (ii) realised/unrealised investment returns on a specified pool of assets held by the issuer or,
    (iii) the profit or loss of the Company, fund or other entity that issues that contract.

Under IFRS 4 *Insurance Contracts*, DPF can be either treated as an element of equity or as a liability, or can be split between the two elements. The Group policy is to treat all DPF as liabilities within insurance or investment contract liabilities.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

The policyholder bears the financial risks relating to some insurance contracts or investment contracts. Such products are usually unit-linked contracts.

3.18.2 Recognition and measurement

Insurance contracts are classified into two main categories, depending on the nature of the risk, duration of the risk and whether or not the terms and conditions are fixed.

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission.

Claims and loss adjustment expenses are charged to the profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

3.18.4 Life assurance contracts

In respect of the short term life assurance contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage. The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before the deduction of the commission.

In respect of long term life assurance contracts, premiums are recognised as revenue (earned premiums) when they become payable by the contract holder. Premiums are shown before deduction of commission.

Premiums for group credit life policies are recognised when paid by the contract holder.

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised. The liability is based on the assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

Where a life assurance contract has a single premium or limited number of premium payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in-force or for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at the inception of the contract.

Claims and benefits payable to contract holders are recorded as expenses when they are incurred.

3.18.5 Reinsurance contracts

Contracts entered into 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 recognised as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer, are included in insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance contract assets.

The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract assets are impaired, the Group reduces the carrying amount of the reinsurance contract assets to their recoverable amounts and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

The Group also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premium and claims on assumed reinsurance contracts are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

At the end of the reporting period, proportions of net retained premium of the general insurance and medical insurance are provided to cover portions of risks which have not expired. The reserves are calculated on a time-proportion basis whilst maintaining the minimum reserve requirements required by the regulations relating to insurance companies. Unearned premium for group life and individual life classes of business is estimated by the Group's actuary in the calculation of the insurance contracts liabilities for life assurance business.

(b) Additional reserve

The additional reserve comprises of the provisions made for:

- the estimated excess of potential claims over unearned premiums (premium deficiency),
- the claims incurred but not reported at the end of the reporting period (IBNR), and
- the potential shortfall in the estimated amounts of the unpaid reported claims.

The reserve represents management's best estimates of the potential liabilities at the end of the reporting period. The liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy by the Group's actuary and changes are made to the provision.

(c) Life assurance fund

The life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality tables. Adjustments to the balance of the fund are effected by charging to consolidated statement of profit or loss.

(d) Unit-linked liabilities

For unit-linked policies, the liability is equal to the policy account values. The account value is the number of units times the bid price.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(e) Outstanding claims

Insurance contract liabilities towards outstanding claims are recognised for all claims intimated and unpaid at the end of the reporting period. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when it is expired, discharged or cancelled.

Deferred Policy Acquisition Costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised as follows:

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;
- For long-term insurance contracts, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and
- For long-term investment contracts, DAC is amortised over a period of four years.

3.18.7 Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

3.18.8 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the profit or loss.

3 Summary of significant accounting policies (continued)

3.19 Taxation

Where applicable, provision is made for current and deferred taxes arising from the operating results of overseas branches that are operating in taxable jurisdictions.

3.20 Islamic financing and investment products

In addition to conventional banking products, the Group offers its customers a variety of non-interest based banking products, which are approved by its Internal Shari'ah Supervision Committee.

Any conventional terminologies that are used only for reasons of legal requirement, explanation and/or clarity will be considered as replaced with its Shari'ah compliant equivalent and will not impact the Islamic products or documentation in terms of their Shari'ah compliance.

All Islamic banking products are accounted for in conformity with the accounting policies described below:

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

Murabaha is a sale of goods with an agreed upon profit mark-up on the cost.

The arrangement is referred to as a Murabaha to the Purchase Orderer where the company sells to a customer a commodity or an asset, which the company has purchased and acquired, based on a promise received from customer.

Ijarah

Ijarah is a contract, or part of contractual agreement, that transfers the usufruct of an asset (the underlying asset) for a period of time in exchange for an agreed consideration, from lessor (the owner of underlying asset i.e. the company) to a lessee (the customer).

This may involve a hybrid Ijarah arrangement (known as Ijarah Muntahia Bittamleek) which, in addition to the Ijarah contract, includes a promise (by the company) resulting in transfer of the ownership of the underlying asset to the lessee (the customer) through a sale or gift – independent of Ijarah Contract.

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Istisna'

Istisna' is a contract of sale of specified items to be manufactured or constructed, with an obligation on part of the manufacturer or builder (contractor) to deliver them to the customer upon completion.

Under this arrangement, the Group provides funds to a customer for construction of a real estate and/or manufacturing of any other assets. Istisna' requires properly specifying the finished product. The customer is required to arrange/employ all the resources required to produce the specified asset(s).

Mudarabah

Mudarabah is a partnership in profit whereby one party provides capital (Rab al-Mal) and the other party provides labour (Mudarib). The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudarabah profit. In case of loss, the same is borne by Rab-al-Mal. The Mudarib is not liable for losses except in case of misconduct in respect to Mudarabah fund, negligence and breach of the terms of Mudarabah contract.

Wakalah

Wakalah is an act of one party (principal) delegating another party (the agent) to perform a permissible activity on his behalf. This may involve Al-Wakalah Bi Al-Istithmar, in which the Company appoints another person an agent to invest its funds with an intention to earn profit, 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 Wakalah.

(ii) Accounting policy

Islamic financing and investment products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income. The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period. Allowance for impairment is made against Islamic financing and investment products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.14.1). Islamic financing and investment products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy

Income from Islamic financing and investing assets are recognised in the consolidated statement of profit or loss using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the balance outstanding.

Ijarah

Ijarah income is recognised on effective profit rate basis over the lease term.

Mudarabah

Income or losses on Mudarabah financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakalah

Estimated income from Wakalah 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.

(iv) Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) are calculated according to the Group's standard procedures and are approved by the Group's Internal Shari'ah Supervision Committee.

3 Summary of significant accounting policies (continued)

3.21 Provision for employees' end of service indemnity

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 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 2021 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 18).

Pension and national contribution for UAE citizens are made by the Group in accordance with Federal Law No. 7 of 1999 and no further liability exists.

3.22 Acceptances

Acceptances 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.

3.23 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and other balances with the UAE Central Bank (excluding statutory reserve) and money market placements which are maturing within three months from the value date of the deposit or placement. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

4.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Loss (ECL) is further detailed in note 43.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL, including measurement of ECL for default exposures;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

4.2 Fair value of financial instruments

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. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

4.3 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, recognised market accepted pricing models and from counterparty statements. When prices are not available, 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 and other valuation techniques commonly used by market participants.

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

4.4 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

5 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

	2021 AED'000	2020 AED'000
Cash on hand	**1,027,306**	996,803
Balances with central banks:		
Current accounts and other balances	**9,223,621**	8,124,831
Statutory deposits	**4,456,824**	3,770,307
Certificates of deposit	**2,800,000**	5,050,000
	17,507,751	17,941,941

(b) The geographical analysis of the cash and balances with central banks is as follows:

	2021 AED'000	2020 AED'000
Within the UAE	**10,336,038**	14,186,941
Outside the UAE	**7,171,713**	3,755,000
	17,507,751	17,941,941

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current account balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 0.18% (31 December 2020: 0.21%) per annum

6 Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	2021 **AED'000**	2020 AED'000
Demand	**1,256,536**	2,419,545
Time	**27,716,058**	25,985,607
	28,972,594	28,405,152
Less: Allowance for impairment	**(167,499)**	(166,122)
	28,805,095	28,239,030

(b) The above represent deposits and balances due from:

	2021 **AED'000**	2020 AED'000
Banks within the UAE	**4,391,518**	5,878,872
Banks outside the UAE	**24,581,076**	22,526,280
	28,972,594	28,405,152
Less: Allowance for impairment	**(167,499)**	(166,122)
	28,805,095	28,239,030

(c) *Allowance for impairment movement:*

	2021 **AED'000**	2020 AED'000
At beginning of the year	**166,122**	108,602
Charge during the year (Note 31)	**(4,404)**	54,678
Interest in suspense	**5,495**	2,910
Exchange rate and other adjustments	**286**	(68)
At end of the year	**167,499**	166,122

7 Other financial assets

(a) The analysis of the Group's other financial assets as at 31 December is as follows:

	2021 AED'000	2020 AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit and loss (FVTPL)		
Debt securities	**1,548,129**	815,671
Equities		
Quoted	**37,668**	6,719
Unquoted	**1,113**	1,112
Mutual and other funds	**686,534**	629,865
	2,273,444	1,453,367
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	**13,480,719**	6,470,966
Equities		
Quoted	**577,857**	459,821
Unquoted	**53,589**	54,949
Mutual and other funds	**55,514**	-
	14,167,679	6,985,736
Total other financial assets measured at fair value (A)	**16,441,123**	8,439,103
(iii) Other financial assets measured at amortised cost		
Debt securities	**10,302,332**	11,021,883
Less: Allowance for impairment	**(24,508)**	(21,229)
Total other financial assets measured at amortised cost (B)	**10,277,824**	11,000,654
Total other financial assets [(A) +(B)]	**26,718,947**	19,439,757

7 Other financial assets (continued)

(b) The geographic analysis of other financial assets is as follows:

	2021 AED'000	2020 AED'000
Within the UAE	**10,908,883**	4,687,824
Outside the UAE	**15,834,572**	14,773,162
	26,743,455	19,460,986
Less: Allowance for impairment	**(24,508)**	(21,229)
	26,718,947	19,439,757

(c) The analysis of other financial assets by industry sector is as follows:

	2021 AED'000	2020 AED'000
Government and public sector	**15,988,557**	15,706,622
Commercial and business	**1,402,840**	660,723
Financial institutions	**9,284,617**	3,044,738
Other	**42,933**	27,674
	26,718,947	19,439,757

(d) The movement of the allowance for impairment of other financial assets measured at amortised cost during the year was as follows:

	2021 AED'000	2020 AED'000
At the beginning of the year	**21,229**	26,365
Charge/(reversal) during the year (Note 31)	**3,270**	(5,134)
Exchange rate and other adjustments	**9**	(2)
At end of the year	**24,508**	21,229

(e) The fair value of other financial assets measured at amortised cost amounted to AED 10.47 billion as of 31 December 2021 (31 December 2020: AED 11.33 billion) (Note 43).

(f) At 31 December 2021, certain financial assets measured at amortised cost, financial assets measured at fair value included debt securities with an aggregate carrying value of AED 2,890 million (fair value of AED 2,905 million) [31 December 2020: carrying value of AED 1,112 million (fair value of AED 1,146 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 2,288 million (31 December 2020: AED 708 million).

7 Other financial assets (continued)

(g) During the year ended 31 December 2021, the Group has reviewed its portfolio and sold certain other financial assets measured at amortised cost, resulting in a gain of AED 51 million (31 December 2020: a gain of AED 63 million) on the sale.

(h) As of 31 December 2021, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.

(i) During the period from 1 January 2021 to 31 December 2021, dividends received from financial assets measured at FVTOCI amounting to AED 21 million (year ended 31 December 2020: AED 25 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.

(j) As of 31 December 2021, change in fair value of other financial assets measured at FVTPL resulted in gain of AED 9 million (31 December 2020: a gain of AED 10 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).

(k) As of 31 December 2021, change in fair value of other financial assets measured at FVTOCI resulted in a loss of AED 174 million (31 December 2020: a loss of AED 104 million) and was recognised in the consolidated statement of comprehensive income.

(l) During the year ended 31 December 2021, the Group purchased and disposed equity shares amounting to AED 1,526 million (31 December 2020 : AED 1,227 million) and AED 1,447 million (31 December 2020 : AED 1,251 million) respectively.

8 Loans and advances measured at amortised cost

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	2021 **AED'000**	2020 AED'000
Loans	**63,354,455**	54,811,763
Overdrafts	**6,465,665**	5,331,364
Credit cards	**1,915,726**	1,784,967
Others	**790,801**	761,943
Total	**72,526,647**	62,690,037
Less: Allowance for impairment	**(6,094,077)**	(5,403,626)
	66,432,570	57,286,411

(b) The analysis of loans and advances measured at amortised cost by industry sector is as follows:

	2021 **AED'000**	2020 AED'000
Manufacturing	**11,404,850**	9,487,506
Construction	**6,939,219**	5,409,471
Trade	**14,706,291**	13,073,340
Transport and communication	**3,065,888**	2,857,810
Services	**7,368,222**	5,916,728
Financial institutions	**2,532,671**	927,106
Personal	**8,196,625**	7,697,088
Residential mortgage	**6,819,805**	5,538,042
Government and related enterprises	**11,493,076**	11,782,946
	72,526,647	62,690,037
Less: Allowance for impairment	**(6,094,077)**	(5,403,626)
	66,432,570	57,286,411

8 Loans and advances measured at amortised cost (continued)

(c) The analysis of allowance for impairment on loans and advances measured at amortised cost by industry sector is as follows:

	31 December 2021 AED'000	31 December 2020 AED'000
Manufacturing	**246,502**	341,500
Construction	**2,017,902**	452,769
Trade	**684,979**	646,108
Transport and communication	**531,710**	136,437
Services	**660,663**	655,002
Financial institutions	**14,630**	68,996
Personal	**1,777,812**	1,446,062
Residential mortgage	**99,050**	140,016
Government and related enterprises	**60,829**	1,516,736
	6,094,077	5,403,626

(d) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books which have been fully provided. Interest is accrued on most of these accounts for litigation purposes only. As at 31 December 2021 and 2020, legal proceedings are pursued for some of these accounts by the Group in the normal course of business.

(e) The movement during the year of the allowance for impairment and suspended interest of loans and advances measured at amortised cost was as follows:

	2021 AED'000	2020 AED'000
At beginning of the year	**5,403,626**	3,844,371
Impairment allowance for the year (Note 31)	**1,529,908**	2,393,760
Interest in suspense	**150,359**	292,394
Exchange rate and other adjustments	**39,720**	9,329
Written off during the year	**(1,029,536)**	(1,136,228)
At end of the year	**6,094,077**	5,403,626

(f) In determining the recoverability of loans and advances, the Group considers any change in the credit quality of the loans and advances measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk at customer level is limited due to the fact that the customer base is large and unrelated.

8 Loans and advances measured at amortised cost (continued)

(g) At 31 December 2021, certain loans and advances measured at amortised cost with an aggregate carrying value of AED 1,332 million (fair value of AED 945 million) [31 December 2020: carrying value of AED 1,435 million (fair value of AED 1,134 million)] were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 441 million (31 December 2020: AED 550 million).

9 Islamic financing and investment products measured at amortised cost

(a) The analysis of the Group's Islamic financing and investment products measured at amortised cost is as follows:

	2021 AED'000	2020 AED'000
Financing		
Murabaha	**11,403,396**	8,788,168
Ijarah	**5,344,195**	6,087,374
	16,747,591	14,875,542
Investment		
Wakalah	**464,826**	426,010
	464,826	426,010
Total	**17,212,417**	15,301,552
Less: Unearned income	**(1,532,000)**	(647,879)
Allowance for impairment	**(626,963)**	(407,330)
	15,053,454	14,246,343

9 Islamic financing and investment products measured at amortised cost (continued)

(b) The analysis of Islamic financing and investment products measured at amortised cost by industry sector is as follows:

	2021 AED'000	2020 AED'000
Manufacturing	**1,878,933**	1,025,362
Construction	**1,875,799**	3,531,481
Trade	**1,001,147**	1,365,946
Transport and communication	**291,898**	388,312
Services	**2,692,387**	3,093,488
Financial institutions	**1,098,307**	1,052,322
Personal	**4,331,202**	2,023,739
Residential mortgage	**1,202,193**	1,155,660
Government and related enterprises	**2,840,551**	1,665,242
Total	**17,212,417**	15,301,552
Less: Unearned income	**(1,532,000)**	(647,879)
Allowance for impairment	**(626,963)**	(407,330)
	15,053,454	14,246,343

(c) The analysis of allowance for impairment on Islamic financing and investment products measured at amortised cost by industry sector is as follows:

	2021 AED'000	2020 AED'000
Manufacturing	**7,957**	9,452
Construction	**378,133**	243,891
Trade	**109,196**	55,767
Transport and communication	**7,885**	12,906
Services	**17,002**	22,678
Financial institutions	**3,707**	3,931
Personal	**11,299**	8,571
Residential mortgage	**36,947**	45,782
Government and related enterprises	**54,837**	4,352
	626,963	407,330

9 Islamic financing and investment products measured at amortised cost (continued)

(d) Allowance for impairment movement:

	2021 AED'000	2020 AED'000
At beginning of the year	**407,330**	128,590
Impairment allowance for the year (Note 31)	**203,822**	310,864
Profit in suspense	**16,042**	29,477
Written off during the year	**(231)**	(61,601)
At end of the year	**626,963**	407,330

(e) In determining the recoverability of Islamic financing and investment products, the Group considers any change in the credit quality of the Islamic financing and investment products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk at customer level is limited due to the fact that the customer base is large and unrelated.

(f) At 31 December 2021, certain Islamic financing and investment products measured at amortised cost included with an aggregate carrying value of nil (fair value of nil) [31 December 2020: carrying value of AED 471 million (fair value of AED 455 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of nil (31 December 2020: AED 222 million).

10 Other assets

	2021 AED'000	2020 AED'000
Interest receivable	**296,794**	277,350
Property acquired in settlement of debts*	**86,055**	94,951
Prepayments	**111,284**	70,556
Positive fair value of derivatives (Note 41)	**1,028,186**	1,512,413
Insurance related receivables (net) **	**562,465**	583,020
Insurance related deferred acquisition costs	**150,381**	154,765
Credit card related receivables	**228,299**	313,322
Taxes paid in advance	**109,041**	102,519
Commission / income receivable	**36,155**	32,758
Advances to suppliers/ vendors	**241,748**	138,395
Others	**437,677**	198,406
	3,290,085	3,478,455

* As of 31 December 2021, property acquired in settlement of debts includes property with a book value of AED 202 million (31 December 2020: AED 209 million) against which a provision of AED 116 million is held (31 December 2020: AED 114 million). This includes some properties which are registered in the name of the Chairman on trust and for the benefit of the Group.

** As of 31 December 2021, the Group has recorded a provision of AED 439 million (31 December 2020: AED 431 million) against insurance related receivables.

11 Investment properties

	2021 AED'000	2020 AED'000
At fair value		
At beginning of the year	**449,715**	473,591
Change in fair value during the year (Note 30)	**13,114**	(23,876)
At end of the year	**462,829**	449,715

All of the Group's investment properties are held under freehold interest and located in the UAE. As at 31 December 2021 and 31 December 2020 these were classified as level 3 in the fair value hierarchy.

11 Investment properties (continued)

Valuation processes

The Group's investment properties were valued as at 31 December 2021 and 31 December 2020 by independent external professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. The fair value is in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS").

Valuation techniques underlying management's estimation of fair value

Valuation of Group's investment properties was determined using either of Discounted Cash Flow (DCF), Residual valuation, Income capitalization or sales comparison methods based on the available inputs as follows.

DCF method of valuation considers expected net cash flow discounted using discount rates which reflect current market conditions. Residual method considers construction costs for development, capitalization rates based on the location, size, quality of the properties and market data, operational cost estimates to maintain the property for its useful life and estimated vacancy rates. Income capitalization method considers contracted rental income and capitalization rate. Sales comparison approach consider value of comparable properties in close proximity adjusted for differences in key attributes such as property size and quality of interior fittings.

Sensitivity on the fair value of Investment properties based on each methodology was as follows:

For the sales comparison method, if the prices of the comparable properties were to increase/ decrease by 1%, the fair value would increase / decrease by AED 1.8 million (31 December 2020: AED 0.6 million). For the DCF method, if the discount rate were to increase/ decrease by 0.25% and considering all other assumptions to remain constant, the fair value would increase/decrease by 3% (31 December 2020: 1%). For the residual method, if the capitalization rate were to increase/ decrease by 0.25% and considering all other assumptions to remain constant, the fair value would increase/ decrease by +4%/-4% (31 December 2020: for the residual or income capitalisation method, if the capitalization rates were to increase/ decrease by 0.25% and considering all other assumptions to remain constant, the fair value would increase/ decrease by +7%/-6%).

12 Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and others AED'000	Right-of-use assets AED'000	Capital work-in-progress* AED'000	Total AED'000
Cost						
At 1 January 2020	631,503	330,921	152,294	192,126	642,568	1,949,412
Additions during the year	-	48,692	96,644	42,684	148,441	336,461
Transfers	532,928	100,192	113,061	-	(746,181)	-
Disposals/write-offs/elimination	(7,924)	(35,919)	(135,768)	(39,734)	-	(219,345)
At 31 December 2020	**1,156,507**	**443,886**	**226,231**	**195,076**	**44,828**	**2,066,528**
Additions during the year	**-**	**30,304**	**21,123**	**26,222**	**51,567**	**129,216**
Transfers	**32,525**	**8,502**	**2,100**	**-**	**(43,127)**	**-**
Disposals/write-offs/elimination	**-**	**(64,720)**	**(17,118)**	**(52,798)**	**(318)**	**(134,954)**
At 31 December 2021	**1,189,032**	**417,972**	**232,336**	**168,500**	**52,950**	**2,060,790**
Accumulated depreciation and impairment						
At 1 January 2020	203,431	212,306	74,072	91,610	-	581,419
Charge for the year (Note 32)	22,878	46,279	33,865	52,716	-	155,738
Disposals/write-offs	(3,085)	(30,657)	(63,921)	(39,735)	-	(137,398)
At 31 December 2020	**223,224**	**227,928**	**44,016**	**104,591**	**-**	**599,759**
Charge for the year (Note 32)	**30,018**	**50,761**	**32,171**	**47,765**	**-**	**160,715**
Disposals/write-offs/elimination	**-**	**(58,948)**	**(12,667)**	**(54,165)**	**-**	**(125,780)**
At 31 December 2021	**253,242**	**219,741**	**63,520**	**98,191**	**-**	**634,694**
Carrying amount						
At 31 December 2021	**935,790**	**198,231**	**168,816**	**70,309**	**52,950**	**1,426,096**
At 31 December 2020	933,283	215,958	182,215	90,485	44,828	1,466,769

* Capital work-in-progress mainly related to the new Head Office of the Group which has been capitalised during the year ended 31 December 2020.

13 Intangible assets

	Software **AED'000**
Cost	
At 1 January 2020	526,452
Additions during the year	137,469
Disposals/write-offs/elimination	(63,021)
At 31 December 2020	600,900
Additions during the year	**82,298**
Disposals/write-offs/elimination	**(13,544)**
At 31 December 2021	**669,654**
Accumulated depreciation and impairment	
At 1 January 2020	263,575
Charge for the year (Note 32)	76,225
Disposals/write-offs/elimination	(33,342)
At 31 December 2020	306,458
Charge for the year (Note 32)	**94,854**
Disposals/write-offs/elimination	**(12,994)**
At 31 December 2021	**388,318**
Carrying amount	
At 31 December 2021	**281,336**
At 31 December 2020	294,442

14 Deposits and balances due to banks

(a) The analysis of deposits and balances due to banks is as follows:

	2021 AED'000	2020 AED'000
Time	**13,947,840**	10,117,449
Demand	**3,192,445**	2,079,656
Overnight	**2,426,201**	2,647,275
	19,566,486	14,844,380

(b) The above represent deposits and balances due to banks from:

	2021 AED'000	2020 AED'000
Banks within the UAE	**1,761,073**	1,751,736
Banks outside the UAE	**17,805,413**	13,092,644
	19,566,486	14,844,380

15 Repurchase agreements with banks

	2021 AED'000	2020 AED'000
Repurchase agreements	**2,729,147**	2,289,723

The above repurchase agreements with banks are at an average interest rate of 1.14% (31 December 2020: 2.66%) per annum. Collateral provided as security against these Repo borrowings are disclosed in Note 7(f), 8(g) and 9(f) to the consolidated financial statements.

16 Customers' deposits

(a) The analysis of customers' deposits is as follows:

	2021 AED'000	2020 AED'000
Current and other accounts	**50,248,066**	39,907,698
Saving accounts	**6,109,303**	4,271,221
Time deposits	**30,793,533**	32,197,054
	87,150,902	76,375,973

16 Customers' deposits (continued)

(b) Analysis by industry sector:

	2021 **AED'000**	2020 AED'000
Government and public sector	**6,105,551**	5,812,573
Commercial and business	**56,772,841**	48,157,046
Personal	**19,846,620**	17,385,515
Financial institutions	**3,842,613**	4,533,955
Other	**583,277**	486,884
	87,150,902	76,375,973

17 Islamic customers' deposits

(a) The analysis of Islamic customers' deposits is as follows:

	2021 **AED'000**	2020 AED'000
Current and other accounts	**3,586,227**	2,649,864
Saving accounts	**191,227**	153,396
Time deposits	**10,554,633**	9,081,306
	14,332,087	11,884,566

(b) Analysis by industry sector:

	2021 **AED'000**	2020 AED'000
Government and public sector	**812,773**	456,559
Commercial and business	**3,899,289**	3,246,715
Personal	**1,082,002**	955,007
Financial institutions	**8,538,023**	7,226,285
	14,332,087	11,884,566

18 Other liabilities

	2021	2020
	AED'000	AED'000
Interest payable	**425,204**	552,774
Negative fair value of derivatives (Note 41)	**970,260**	1,292,784
Insurance related payables	**572,859**	594,729
Accrued expenses	**861,278**	925,219
Income received in advance	**538,702**	295,802
Pay orders issued	**533,625**	550,775
Provision for employees' end of service indemnity**	**234,980**	248,331
Provision for taxation	**104,531**	90,936
Lease liability	**62,280**	82,160
Others	**1,185,817**	706,656
Allowance for impairment – off balance sheet	**538,772**	468,742
	6,028,308	5,808,908

** Provision for employees' end of service indemnity included AED 212 million (31 December 2020: AED 231 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per UAE Labour Law.

The remaining amount of provision for employees' end of service indemnity relates to overseas branches and subsidiaries outside UAE and is computed based on the local laws and regulations of respective jurisdictions.

19 Medium-term loans

	2021 **AED'000**	2020 AED'000
Medium term notes	**7,315,119**	9,616,042

(a) The maturities of the medium-term notes (MTNs) issued under the Euro Medium Term Note (EMTN) programme are as follows:

Year	**2021** **AED'000**	2020 AED'000
2021	**-**	2,225,351
2022	**2,095,531**	2,126,261
2023	**389,753**	402,886
2024	**3,989,012**	3,994,994
2025	**799,917**	826,462
2029	**40,906**	40,088
	7,315,119	9,616,042

Medium term notes are denominated in following currencies:

	2021 **AED'000**	2020 AED'000
U.S. Dollars	**5,254,006**	6,904,126
Japanese Yen	**593,340**	887,436
Australian Dollars	**53,376**	56,785
Chinese Yuan	**1,170,251**	1,161,424
Euro	**83,223**	90,246
South African Rand	**36,941**	40,077
Great Britain Pound	**123,982**	475,948
	7,315,119	9,616,042

The Group established a Euro Medium Term Note (EMTN) programme for USD 5 billion (AED 18.37 billion) under an agreement dated 15 March 2010.

During the year ended 31 December 2021, AED 2 billion of medium-term notes were redeemed.

20 Insurance contract liabilities and reinsurance contract assets

	2021 AED'000	2020 AED'000
Insurance contract liabilities		
Outstanding claims	**2,188,676**	2,295,448
Incurred but not reported claims reserve	**484,339**	623,989
Life assurance fund	**113,442**	133,755
Unearned premium	**1,346,425**	1,295,244
Unit linked liabilities	**426,321**	391,701
Unallocated loss adjustment expenses reserve	**7,399**	7,642
	4,566,602	4,747,779

	2021 AED'000	2020 AED'000
Reinsurance contract assets		
Outstanding claims	**1,734,884**	1,838,783
Incurred but not reported claims reserve	**227,102**	344,412
Life assurance fund	**21,502**	24,981
Unearned premium	**716,478**	683,744
	2,699,966	2,891,920

	2021 AED'000	2020 AED'000
Insurance contract liabilities-net		
Outstanding claims	**453,792**	456,665
Incurred but not reported claims reserve	**257,237**	279,577
Life assurance fund	**91,940**	108,774
Unearned premium	**629,948**	611,500
Unit linked liabilities	**426,321**	391,701
Unallocated loss adjustment expenses reserve	**7,398**	7,642
	1,866,636	1,855,859

20 Insurance contract liabilities and reinsurance contract assets (continued)

20.1 Movement in the provision for outstanding claims, IBNR and unallocated loss adjustment expenses and the related reinsurers' share

	2021			2020		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
At 1 January	**2,927,079**	**(2,183,195)**	**743,884**	2,438,081	(1,841,540)	596,541
Claims incurred during the year	**2,394,478**	**(1,295,860)**	**1,098,618**	2,772,951	(1,668,815)	1,104,136
Claims settled during the year	**(2,641,143)**	**1,517,068**	**(1,124,075)**	(2,283,953)	1,327,160	(956,793)
At 31 December	**2,680,414**	**(1,961,987)**	**718,427**	2,927,079	(2,183,195)	743,884

20.2 Movement in life assurance fund

	AED'000
At 1 January 2020	142,302
Net movement during the year	(33,528)
At 31 December 2020	108,774
Net movement during the year	**(16,834)**
At 31 December 2021	**91,940**

20. 3 Movement in unit linked liabilities

	AED'000
At 1 January 2020	332,324
Net movement during the year	59,377
At 31 December 2020	391,701
Net movement during the year	**34,620**
At 31 December 2021	**426,321**

20 Insurance contract liabilities and reinsurance contract assets (continued)

The following table presents the sensitivity of the value of insurance contract liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance contract liabilities. For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No losses arose in either 2021 or 2020, based on the results of the liability adequacy test. The table below indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of further deterioration in the variable.

	Change in assumptions	**Increase /(decrease) in net liability**	
		2021	2020
		AED'000	AED'000
Morality/morbidity	**+10%**	**518**	620
Discount rate	**+75bps**	**(2,541)**	(3,149)
Morality/morbidity	**-10%**	**(522)**	(625)
Discount rate	**-75bps**	**2,735**	3,400

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

At the general meeting held on 9 November 2021, the shareholders approved increase in the share capital of the Bank to AED 2,006,098,300 by issuing 23,079,007 bonus shares based on the existing face value of AED 10 per share, which is a non cash transaction.

As at 31 December 2021, 200,609,830 ordinary shares of AED 10 each (31 December 2020: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

(b) Statutory and legal reserves

In accordance with UAE Federal Law No. (2) of 2015, 10% of net profit for the year is to be transferred to the statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the UAE. this level is 50% of the issued and paid up share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

(c) General reserve

The general reserve is computed pursuant to the Bank's Articles of Association and can be used for the purposes determined by the Annual General Meeting.

21 Issued and paid up capital and reserves (continued)

(d) Currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. AED), are recognised directly in consolidated statement of comprehensive income and accumulated in the Currency translation reserve. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are included in the Currency translation reserve. Exchange differences previously accumulated in the Currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to the consolidated statement of profit or loss on the disposal or reduction of net equity via distribution of the foreign operation.

(e) Investments revaluation reserve

Investments revaluation reserve shows the effects from the fair value measurement of Financial assets measured at FVTOCI. The change in fair value for the year amounted to a loss of AED 174 million (31 December 2020: loss of AED 104 million) and was reflected in the consolidated statement of comprehensive income [note 7(k)].

(f) Cash flow hedge reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of cross currency swap hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value for cross currency swap of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to consolidated statement of profit or loss only when the hedged transaction affects the consolidated statement of profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Group’s accounting policy.

(g) Dividends on equity instruments

At the Annual General Meeting of the shareholders held on 19 April 2021, the shareholders approved a nil cash dividend for the year ended 31 December 2020 (31 December 2019: cash dividend of 40% of the issued and paid up capital amounting to AED 710 million).

22 Non-controlling interests

	2021 AED'000	2020 AED'000
At beginning of the year	**757,680**	710,348
Share of profit for the year (Note 36)	**73,508**	72,575
Share of other comprehensive income/(loss) for the year	**12,024**	(7,471)
Dividend paid	**(32,825)**	-
Transaction with NCI	**(14,325)**	(17,772)
At end of the year	**796,062**	757,680

23 Contingent liabilities and commitments

(a) The analysis of the Group's contingent liabilities and commitments is as follows:

	2021 AED'000	2020 AED'000
Guarantees	**33,706,515**	40,270,247
Letters of credit	**15,785,785**	9,235,601
Commitments for capital expenditure	**290,668**	317,697
	49,782,968	49,823,545

(b) Irrevocable undrawn credit facilities commitments as at 31 December 2021 amounted to AED 7.95 billion (31 December 2020: AED 6.25 billion).

The analysis of contingent liabilities and commitments by geographic region and industry sector is shown in Note 38 to the consolidated financial statements.

24 Interest income

	2021 AED'000	2020 AED'000
Loans and advances	**2,647,739**	2,895,464
Banks	**689,138**	847,521
Central banks	**73,641**	148,669
Other financial assets measured at amortised cost	**469,375**	444,623
Others	**371,931**	178,647
	4,251,824	4,514,924

25 Income from Islamic financing and investment products

	2021 AED'000	2020 AED'000
Financing		
Murabaha	**302,081**	304,587
Ijarah	**154,190**	209,738
Other	**4,512**	-
	460,783	514,325
Investment		
Wakalah	**14,470**	29,152
	14,470	29,152
Total	**475,253**	543,477

26 Interest expense

	2021 AED'000	2020 AED'000
Customers' deposits	**927,886**	1,320,733
Deposits and balances due to banks	**301,234**	457,305
Medium-term loans	**276,584**	332,659
	1,505,704	2,110,697

27 Distribution to depositors – Islamic products

This represents the share of income allocated to depositors of the Group. The allocation and distribution to depositors is approved by the Group's Internal Shari'ah Supervision Committee.

28 Net fee and commission income

	2021 **AED'000**	2020 AED'000
Fee and commission income		
Commission income	**588,614**	481,081
Insurance commission	**228,609**	195,032
Fees and charges on banking services	**667,576**	598,659
Credit card related fees	**1,720,244**	1,167,108
Others	**213,043**	200,656
Total	**3,418,086**	2,642,536
Fee and commission expenses		
Commission expense	**(34,553)**	(27,235)
Insurance commission	**(327,286)**	(324,485)
Credit card related expenses	**(1,356,517)**	(986,744)
Others	**(122,931)**	(84,560)
Total	**(1,841,287)**	(1,423,024)
Net fee and commission income	**1,576,799**	1,219,512

29 Net investment income

	2021 **AED'000**	2020 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	**28,305**	43,145
Unrealised gain on other financial assets measured at FVTPL [Note 7(j)]	**8,521**	9,564
Dividend income from other financial assets measured at FVTPL	**1,041**	1,382
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	**117,603**	242,328
Dividend income from other financial assets measured at FVTOCI [Note 7 (i)]	**21,337**	24,961
	176,807	321,380

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

30 Other income, net

	2021 AED'000	2020 AED'000
Foreign exchange gains	**472,228**	390,141
Insurance related income (Note 36)	**454,995**	528,027
(Loss)/gain on disposal of property and equipment	**(3,447)**	8,110
Unrealised gain/(loss) on derivatives	**30,724**	(19,602)
Unrealised gain/(loss) on investment properties (Note 11)	**13,114**	(23,876)
Others	**39,363**	48,272
	1,006,977	931,072

31 Allowances for impairment, net

	2021 AED'000	2020 AED'000
Deposits and balances due from banks [Note 6(c)]	**(4,404)**	54,678
Other financial assets measured at amortised cost [Note 7(d)]	**3,270**	(5,134)
Other financial assets measured at FVOCI	**3,372**	728
Loans and advances measured at amortised cost [Note 8(e)]	**1,529,908**	2,393,760
Islamic financing and investment products measured at amortised cost [Note 9(d)]	**203,822**	310,864
Other assets	**10,190**	13,441
Change in impairment allowance on off-balance sheet items	**88,773**	312,099
Loans and advances including Islamic financing and investment products measured at amortized cost written off	**408,412**	327,384
Recovery of loans and advances including Islamic financing and investment products measured at amortised cost previously written off	**(184,717)**	(51,001)
	2,058,626	3,356,819

32 General and administrative expenses

	2021 AED'000	2020 AED'000
Salaries and employees related expenses	**1,466,741**	1,535,704
Depreciation on property and equipment (Note 12)	**160,715**	155,738
Amortisation on intangible assets (Note 13)	**94,854**	76,225
Social contribution	**1,785**	3,733
Others	**898,862**	1,173,456
	2,622,957	2,944,856

33 Earnings/(loss) per share

The basic and diluted earnings per share is calculated by dividing the net (loss) / profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year.

	2021	2020
Profit/(loss) for the year (AED'000) (Attributed to owners of the Parent)	**1,002,203**	(1,277,826)
Number of ordinary shares outstanding [Note 21(a)]	**200,609,830**	177,530,823
Basic and diluted earnings/(loss) per share (AED)	**5.56**	(7.09)

In accordance with IAS 33 “Earnings Per Share”, the impact of bonus shares issued have been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

34 Proposed dividends

The board of Directors has proposed a 10% cash dividend for the year ended 31 December 2021 at their meeting held on 31 January 2022.

35 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central bank, certificates of deposits, balances with banks and money market placements which are maturing within three months from the value date of the deposit or placement, as below.

	2021 AED’000	2020 AED’000
Cash on hand	**1,027,306**	996,803
Current accounts and other balances with central banks	**9,223,621**	8,124,832
Certificates of deposit maturing within 3 months	**2,800,000**	-
Deposits and balances due from banks maturing within 3 months	**8,251,111**	11,718,981
	21,302,038	20,840,616

36 Investment in subsidiaries and associates

(a) At 31 December 2021, Mashreqbank PSC Group (the "Group") comprises the Bank and the following direct subsidiaries, associates and joint venture:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Principal activity
Subsidiary			
Oman Insurance Company (PSC)	United Arab Emirates	64.46	Insurance & reinsurance
Mindscape FZ LLC	United Arab Emirates	100.00	IT services
Mashreq Securities LLC	United Arab Emirates	99.98	Brokerage
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	Brokerage and asset & fund management
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	Islamic finance company
Injaz Services FZ LLC	United Arab Emirates	100.00	Service provider
Invictus Limited	Cayman Islands	100.00	Special purpose vehicle
Al Taqania Employment Services One Person Company LLC	United Arab Emirates	100.00	Employment Services
Al Kafaat Employment Services One Person Company LLC	United Arab Emirates	100.00	Employment Services
Mashreq for Business Process Support (Sole Person Company)	Egypt	100.00	Employment Services
Mashreq Global Services (SMC private) Limited	Pakistan	100.00	Employment Services
Shorouq Commodities Trading DMCC	United Arab Emirates	100.00	Trading
IDFAA Payment Services LLC	United Arab Emirates	100.00	Payment service provider
Osool – A Finance Company (PJSC) *	United Arab Emirates	98.00	Finance
Associate			
Emirates Digital Wallet LLC	United Arab Emirates	23.22	Digital wallet service
Joint venture			
Noon Digital Pay LLC	United Arab Emirates	51.00	Digital wallet service

* Under liquidation

36 Investment in subsidiaries and associates (continued)

(b) Financial details of non-wholly owned subsidiaries of the Bank are as follows:

Name of subsidiary	Profit allocated to non-controlling interest		Accumulated non-controlling interests	
	2021	2020	**2021**	2020
	AED'000	AED'000	**AED'000**	AED'000
Oman Insurance Company (PSC)	**73,077**	72,330	**789,970**	748,973
Individually immaterial subsidiaries with non - controlling interests	**431**	245	**6,092**	8,707
	73,508	72,575	**796,062**	757,680

(c) Other financial assets measured at FVTPL include investments by Oman Insurance Company PSC amounting to AED 447 million (31 December 2020: AED 394 million).

(d) During the year ended 31 December 2021, the Group sold investments held at fair value through other comprehensive income amounting to AED 154 million at the time of sale (31 December 2020: AED 133 million). The Group realised a loss of AED 6 million (31 December 2020: loss of AED 27 million) which was transferred to retained earnings.

36 Investment in subsidiaries and associates (continued)

(e) Below is the summarised financial information of Oman Insurance Company (PSC) Group, the only subsidiary in which there is a material non-controlling interest. The financial information represents balances before intra-group eliminations.

	2021 AED'000	2020 AED'000
Statement of financial position		
Total assets	**7,555,814**	7,634,687
Total liabilities	**5,332,820**	5,558,920
Net equity	**2,222,994**	2,075,767

	2021 AED'000	2020 AED'000
Statement of comprehensive income		
Gross insurance premium	**3,538,930**	3,585,104
Less: Insurance premium ceded to reinsurers	**(1,953,527)**	(1,952,002)
Net retained premium	**1,585,403**	1,633,102
Net change in unearned premium and mathematical reserve	**(31,791)**	(939)
Net earned insurance premium	**1,553,612**	1,632,163
Gross claims settled	**(2,641,143)**	(2,283,953)
Insurance claims recovered from reinsurers	**1,517,068**	1,327,160
Net claims settled	**(1,124,075)**	(956,793)
Net change in outstanding claims and additional reserve	**25,457**	(147,343)
Net claims incurred	**(1,098,618)**	(1,104,136)
Insurance related income (Note 30)	**454,994**	528,027
Net commission and other loss	**(55,976)**	(87,085)
Net investment income	**138,323**	90,296
Net expenses	**(331,216)**	(334,693)
Profit for the year	**206,125**	196,545
Other comprehensive loss	**38,056**	(15,463)
Total comprehensive income	**244,181**	181,082
Statement of cash flows		
Net cash generated from operating activities	**53,562**	199,106
Net cash used in investing activities	**17,184**	(45,780)
Net cash used in financing activities	**(97,940)**	(26,950)
Net (decrease)/ increase in cash and cash equivalents	**(27,194)**	126,376

37 Related party transactions

(a) Certain "related parties" (such as directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group 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. Such related party transactions are disclosed below.

(b) Related party balances included in the consolidated statement of financial position are as follows:

	2021	2020
	AED'000	AED'000
Balances with major shareholders		
Loans and advances	**2,810,150**	3,575,543
Deposits/ financial instruments under lien	**1,029,236**	979,128
Letter of credit and guarantees	**1,854,305**	1,362,098
Balances with directors and key management personnel		
Loans and advances	**125,107**	72,488
Deposits/ financial instruments under lien	**230,884**	189,520
Letter of credit and guarantees	**5,369**	82,832

(c) Profit/(loss) for the year includes related party transactions as follows:

	2021	2020
	AED'000	AED'000
Transactions with major shareholders		
Interest income	**79,407**	135,070
Interest expense	**891**	1,705
Other income	**33,984**	46,120
Transactions with directors and key management personnel		
Interest income	**2,011**	3,198
Interest expense	**71**	490
Other income	**341**	501

(d) 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 amounted in total to AED 40 million (31 December 2020: AED 38 million).

38 Concentration of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2021			31 December 2020		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
UAE.	**89,063,593**	**74,602,940**	**26,291,091**	87,839,540	72,494,789	31,227,767
Other Middle East Countries	**37,079,026**	**31,949,362**	**8,772,586**	27,550,381	24,881,814	6,145,460
O.E.C.D.	**19,846,199**	**29,787,617**	**6,264,462**	17,423,643	21,325,242	5,301,288
Others	**31,064,791**	**19,689,404**	**8,164,161**	25,709,676	19,632,987	6,831,333
	177,053,609	**156,029,323**	**49,492,300**	158,523,240	138,334,832	49,505,848

(b) Industry Sectors

	31 December 2021			31 December 2020		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Government and public sector	**29,948,837**	**7,194,809**	**44,682**	28,620,730	6,502,837	234,787
Commercial & business	**59,148,116**	**74,139,651**	**34,386,637**	54,781,239	65,843,185	38,604,914
Personal	**19,243,040**	**21,504,238**	**480,376**	15,180,851	18,869,364	407,917
Financial institutions	**66,620,002**	**51,993,297**	**14,374,179**	58,365,437	45,424,934	10,198,730
Others	**2,093,614**	**1,197,328**	**206,426**	1,574,983	858,633	59,500
	177,053,609	**156,029,323**	**49,492,300**	158,523,240	138,334,832	49,505,848

39 Segmental information

Reportable segments

IFRS 8 – *Operating Segments* – requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Reportable segments

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO (the Group's chief operating decision maker) in order to allocate resources to the segment and to assess its performance. Information reported to the Group's CEO for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to different markets.

The Group's reportable segments under IFRS 8 *Operating Segments* are therefore as follows:

(i) Corporate and Investment Banking segment comprises of domestic corporate and commercial banking. It also includes global Financial Institution business. It offers complete suite of corporate banking products such as Trade finance, contracting finance, project finance, investment banking, cash management, correspondent banking, etc.

(ii) The Retail segment includes products and services offered to individuals or small businesses within U.A.E, Qatar and Egypt. The product offerings to customers include, current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, private banking and wealth management services.

(iii) The Treasury & Capital Markets segment consists of customer flow business and proprietary business and funding centre management. Customer flow business includes transactions for foreign exchange, derivatives, margin FX, futures, hedging, investment products, domestic equities (brokerage) and asset management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

(iv) The International Banking segment consists of Corporate business for the Group's overseas banking branches. Product range covers complete suite similar to domestic corporate.

(v) All Islamic banking products offered to customers are included under the Islamic Banking segment. These products are Ijarah Home Finance, Mudarabah Deposit, Mudarabah savings account, Musharaka finance, Murabaha commodity finance, Ijarah Equipment Finance, Sukuk Underwriting, Musharaka LC, Murabaha LC, TR Murabaha, Kafala, Wakala Deposit, Reverse Murabaha Deposit & Sukuk Advisory.

39 Segmental information (continued)

Reportable segments (continued)

(vi) The Insurance subsidiary, Oman Insurance Company (PSC) Group – comprises the Insurance segment. The product offerings to customers include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance.

(vii) Other consists of Head office and certain investments and assets held centrally due to their strategic significance to the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the consolidated financial statement Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and tax expenses.

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2021							
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**Islamic banking** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	**1,016,181**	**954,511**	**214,689**	**299,368**	**371,702**	**81,381**	**107,657**	**3,045,489**
Non interest income, net	**686,150**	**707,735**	**661,088**	**74,658**	**195,520**	**453,230**	**(17,798)**	**2,760,583**
Operating income	**1,702,331**	**1,662,246**	**875,777**	**374,026**	**567,222**	**534,611**	**89,859**	**5,806,072**
General and administrative expenses								**(2,622,957)**
Operating profit before impairment								**3,183,115**
Allowances for impairment, net								**(2,058,626)**
Profit before tax								**1,124,489**
Tax expense								**(48,778)**
Profit for the year								**1,075,711**
Attributable to:								
Owners of the Parent								**1,002,203**
Non-controlling interests								**73,508**
								1,075,711
Segment Assets	**61,650,177**	**17,263,207**	**36,209,355**	**15,093,871**	**18,634,754**	**7,466,493**	**20,735,752**	**177,053,609**
Segment Liabilities	**51,973,472**	**36,727,897**	**17,472,601**	**15,033,770**	**11,887,394**	**5,305,995**	**17,628,193**	**156,029,322**

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2020							
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**Islamic banking** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	850,554	913,053	(11,434)	272,073	280,066	82,343	289,645	2,676,300
Non interest income, net	589,191	495,004	673,098	65,312	184,584	449,051	15,724	2,471,964
Operating income	1,439,745	1,408,057	661,664	337,385	464,650	531,394	305,369	5,148,264
General and administrative expenses								(2,944,856)
Operating profit before impairment								2,203,408
Allowances for impairment, net								(3,356,819)
Loss before tax								(1,153,411)
Tax expense								(51,840)
Loss for the year								(1,205,251)
Attributable to:								
Owners of the Parent								(1,277,826)
Non-controlling interests								72,575
								(1,205,251)
Segment Assets	50,953,938	14,611,527	40,493,411	14,743,950	11,134,784	7,513,691	19,071,939	158,523,240
Segment Liabilities	48,281,737	30,133,069	15,127,649	12,668,622	10,853,882	5,529,196	15,740,677	138,334,832

39 Segmental information (continued)

Geographical information

The Group operates in four principal geographical areas – UAE. (country of domicile), other Middle East Countries (Kuwait, Bahrain, Egypt and Qatar), O.E.C.D. (USA and UK) and other countries (India and Hong Kong).

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below:

	Operating income from external customers *		Non-current assets **	
	2021 AED'000	2020 AED'000	**2021 AED'000**	2020 AED'000
UAE	**4,711,137**	4,188,913	**2,062,938**	2,093,416
Other Middle East countries	**810,728**	687,634	**76,036**	79,546
O.E.C.D.	**173,383**	186,150	**22,250**	29,582
Other countries	**110,824**	85,567	**9,037**	8,382
	5,806,072	5,148,264	**2,170,261**	2,210,926

* Operating income from external customers is based on the Group's operational centres.

** Non-current assets include property & equipment, intangible assets and investment properties. The additions to non-current assets during the year relate to property & equipment and intangible assets which has been disclosed in note 12 and 13. Refer to note 12 and 13 for depreciation and amortisation.

Revenue from major products and services

Revenue from major products and services are disclosed in Notes 24, 25, 28, 29 and 30 in the consolidated financial statements.

Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2021 and 2020.

40 Classification of financial assets and liabilities

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2021:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	17,507,751	17,507,751
Deposits and balances due from banks	-	-	28,805,095	28,805,095
Other financial assets measured at fair value	2,273,444	14,167,679	-	16,441,123
Other financial assets measured at amortised cost	-	-	10,277,824	10,277,824
Loans and advances measured at amortised cost	-	-	66,432,570	66,432,570
Islamic financing and investment products measured at amortised cost	-	-	15,053,454	15,053,454
Acceptances			14,340,671	14,340,671
Other assets	1,028,186	-	1,887,183	2,915,369
Total	3,301,630	14,167,679	154,304,548	171,773,857
Financial liabilities:				
Deposits and balances due to banks	-	-	19,566,486	19,566,486
Repurchase agreements with banks	-	-	2,729,147	2,729,147
Customers' deposits	-	-	87,150,902	87,150,902
Islamic customers' deposits	-	-	14,332,087	14,332,087
Acceptances			14,340,671	14,340,671
Other liabilities	970,260	-	3,606,976	4,577,236
Medium-term loans	-	-	7,315,119	7,315,119
Total	970,260	-	149,041,388	150,011,648

40 Classification of financial assets and liabilities (continued)

(b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2020:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	17,941,941	17,941,941
Deposits and balances due from banks	-	-	28,239,030	28,239,030
Other financial assets measured at fair value	1,453,367	6,985,736	-	8,439,103
Other financial assets measured at amortised cost	-	-	11,000,654	11,000,654
Loans and advances measured at amortised cost	-	-	57,286,411	57,286,411
Islamic financing and investment products measured at amortised cost	-	-	14,246,343	14,246,343
Acceptances	-	-	12,767,461	12,767,461
Other assets	1,512,413	-	1,629,844	3,142,257
Total	2,965,780	6,985,736	143,111,684	153,063,200
Financial liabilities:				
Deposits and balances due to banks	-	-	14,844,380	14,844,380
Repurchase agreements with banks	-	-	2,289,723	2,289,723
Customers' deposits	-	-	76,375,973	76,375,973
Islamic customers' deposits	-	-	11,884,566	11,884,566
Acceptances	-	-	12,767,461	12,767,461
Other liabilities	1,292,784	-	3,286,327	4,579,111
Medium-term loans	-	-	9,616,042	9,616,042
Total	1,292,784	-	131,064,472	132,357,256

41 Derivatives

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes. These derivative financial instruments are based on observable market inputs i.e. Level 2.

(a) Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

(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.

(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.

The Group measures a net Credit Value Adjustment (CVA) on outstanding OTC derivative contracts to account for market value of ‘credit risk’ due to any failure to perform on contractual agreements by a counterparty. CVA is computed on all OTC derivatives asset classes including Foreign Exchange, Interest Rates, Equities and Commodities etc. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit losses in the derivatives portfolios. CVA is a function of our expected exposure to counterparts, probability of default and recovery rates. Internally the Group manages and monitor the exposure to this risk by defining controls and limits around a ‘peak future exposure’ (PFE) measure and in many cases by collateralizing facilities under Credit Support Annex (CSA). As at 31 December 2021, net incremental CVA charge to statement of profit or loss amounts to AED 7 million (31 December 2020: AED 16 million).

41 Derivatives (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	249,452	194,982	56,973,978	30,699,732	12,574,299	10,090,188	3,532,013	77,923
Foreign exchange options (bought)	-	336	1,880,243	1,566,326	31,640	282,276	-	-
Foreign exchange options (sold)	513	-	1,622,613	1,565,979	31,640	24,994	-	-
Interest rate swaps	606,997	662,173	34,035,738	907,988	377,668	5,252,582	13,526,998	13,970,503
Credit default swaps	237	271	55,095	-	-	-	55,095	-
Futures contracts purchased (Customer)	47,450	23,481	1,208,485	802,997	1,659	403,828	-	-
Futures contracts sold (Customer)	142	1,301	47,595	28,634	18,961	-	-	-
Futures contracts purchased (Bank)	1,301	142	47,595	28,634	18,961	-	-	-
Futures contracts sold (Bank)	23,481	47,451	1,217,320	811,833	1,659	403,828	-	-
Total	929,573	930,137	97,088,662	36,412,123	13,056,487	16,457,696	17,114,106	14,048,426
Held as fair value/ cash flow hedge:								
Cross-currency swap	98,613	40,123	1,960,813	22,620	-	-	1,795,204	150,359
Total	1,028,186	970,260	99,049,475	36,434,743	13,056,487	16,457,696	18,909,310	14,198,785

41 Derivatives (continued)

31 December 2020

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to maturity 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	627,625	472,924	75,256,538	55,598,286	7,754,686	3,448,122	8,378,338	77,107
Foreign exchange options (bought)	-	84	8,520	8,520	-	-	-	-
Foreign exchange options (sold)	84	-	8,520	8,520	-	-	-	-
Interest rate swaps	775,662	774,128	34,160,162	551,080	788,143	764,660	20,292,523	11,763,756
Credit default swaps	-	240	55,095	-	-	-	55,095	-
Futures contracts purchased (Customer)	538	-	67,125	43,371	20,259	3,495	-	-
Futures contracts sold (Customer)	-	2,710	372,404	362,184	10,220	-	-	-
Futures contracts purchased (Bank)	2,710	6	380,692	368,452	11,598	643	-	-
Futures contracts sold (Bank)	35	538	154,865	85,194	20,259	49,412	-	-
Total	1,406,654	1,250,630	110,463,921	57,025,607	8,605,165	4,266,332	28,725,956	11,840,863
Held as fair value/ cash flow hedge:								
Cross-currency swap	105,759	42,154	2,123,671	-	-	-	1,818,038	305,633
Total	1,512,413	1,292,784	112,587,592	57,025,607	8,605,165	4,266,332	30,543,994	12,146,496

42 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

- To comply with the capital requirements set by the Basel Committee on Banking Supervision (BCBS) and the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group'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 maintain a strong capital base and capital buffer to support the development of its business and provide adequate cushion to withstand a variety of stress scenarios and/or unforeseen risks.

Regulatory capital

On June 26, 2012, the BCBS issued the Basel III rules on the information banks must publicly disclose when detailing the composition of their capital, which set out a framework to ensure that the components of banks capital bases are publicly disclosed in standardised formats across and within jurisdictions for banks subject to Basel III.

Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banks to hold capital in excess of regulatory minimums.

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Parent company and overseas banking operations are directly supervised by their local regulators. In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

The Group's regulatory capital is analysed into two tiers, in line with the Central Bank regulation:

- Tier 1 capital, split into Common equity tier 1 (CET 1) which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, accumulated other comprehensive income and Additional tier 1 (AT 1) comprising of instrument issued by banks which are eligible for inclusion on AT 1 and are not included in CET 1.

- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets), qualifying subordinated liabilities not part of CET 1.

42 Capital management (continued)

Regulatory capital (continued)

- Regulatory adjustment is applied in CET 1, AT 1 and Tier 2 capital consisting mainly of goodwill and other intangibles, deferred tax assets, cash flow hedge reserve. Additionally, threshold deduction is applied in case of exceeding the threshold limit.

As per the Central bank regulation for Basel III, the capital requirement as at 31 December 2021 is 13% inclusive of capital conservation buffer.

The Bank is required to comply with the following minimum requirement:

(i) CET1 must be at least 7% of risk weighted assets (RWA);
(ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and
(iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).
(iv) In addition, banks are required to maintain a capital conservation buffer (CCB) of 2.5% of risk weighted assets (RWA) in the form of CET 1

The Group's assets are risk-weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

42 Capital management (continued)

Regulatory capital (continued)

As part of its Capital Management, the Bank conducts an Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate to the Central Bank of the UAE that the Bank has implemented methods and procedures to ensure adequate capital resources and action plans in stress conditions, with due attention to all material risks. The Central Bank of the UAE conducts a Supervisory Review and Evaluation Process (SREP) to assess the soundness of the Bank's ICAAP.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group has issued medium-term floating rates notes.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Group's management of capital during the year.

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

42 Capital management (continued)

Regulatory capital (continued)

(a) The Group's regulatory capital positions as at 31 December 2021 and 31 December 2020 were as follows:

	2021 AED'000	2020 AED'000
Common equity Tier 1 capital		
Issued and paid up capital	**2,006,098**	1,775,308
Statutory and legal reserve	**1,012,320**	912,099
General reserve	**312,000**	312,000
Currency translation reserve	**(116,116)**	(98,332)
Investments revaluation reserve	**(547,489)**	(358,088)
Retained earnings	**17,360,802**	16,941,770
Less: Regulatory deductions	**(241,729)**	(204,050)
Total (A)	**19,785,886**	19,280,707
Additional Tier 1 capital	**-**	-
Total Tier 1 capital (B)	**19,785,886**	19,280,707
Tier 2 capital		
General provision	**1,693,975**	1,471,323
Total	**1,693,975**	1,471,323
Total capital base (C)	**21,479,861**	20,752,030
Credit risk	**135,518,028**	117,705,874
Market risk	**3,206,199**	2,219,454
Operational risk	**9,444,817**	9,724,272
Total risk-weighted assets (D)	**148,169,044**	129,649,600
Capital adequacy ratio [(C)/(D) x 100]	**14.50%**	16.01%

42 Capital management (continued)

Regulatory capital (continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

43 Risk management

The Risk Management Group ("RMG") is responsible for identifying, analysing, measuring and managing risk to ensure that the Group (i) remains within its risk appetite; and (ii) generates sustainable risk-adjusted returns as mandated by the shareholders.

The Group is exposed to the following material risks:

- Credit risk
- Market risk
- Operational risk
- Liquidity risk

The Group's ability to consistently foster a robust risk management culture and framework is an important factor in its financial strength and stability.

Risk Management Framework

The Board of Directors (the "Board") through the Board Risk Committee ("BRC") has overall responsibility for establishment and oversight of the Group's risk management framework. They are assisted by various management committees including the Executive Management Committee ("ExCo"), Enterprise Risk Committee ("ERC"), Assets and Liabilities Committee ("ALCO"), Regulatory Compliance Committee ("RCC") and Information Security Committee ("ISC"). These committees are appointed by the Board and assist the Board in management of risk in the Group including review and approval of all risk management policies.

While the Board carries ultimate responsibility for overall risk management, the ERC assists the Board/Board Risk Committee in discharging these responsibilities including identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the Group including recommending the Group's overall Risk Appetite.

The ERC has overall responsibility for oversight of risk management framework and risk appetite of the Group. The Enterprise Risk Committee is also responsible for the approval of credit policies and procedures of the Group and to ensure adherence to the approved policies and close monitoring of different risks within the Group. The Enterprise Risk Committee also approves policy exceptions, establishes and monitors various concentration limits (such as limits for country, industry sector etc.) as part of the risk appetite and reviews credit portfolio to manage asset quality.

43 Risk management (continued)

Risk Management Framework (continued)

The Risk Management Group ("RMG") is independent of business groups and is led by a Chief Risk Officer ("CRO") with responsibility for deploying an enterprise-wide risk management and oversight of all material risks with the Group. The RMG is primarily responsible for defining the framework for management of all material risks within the Group.

The Internal Audit Group ("IAG") acts as the third line of defence function within the Group, independent from both the business units ("first line of defence") and Group Operational risk team ("second line of defence"). IAG provides independent assurance to stakeholders and senior management on compliance with all risk policies and procedures in the Group and the effectiveness of the risk management processes. This is undertaken through periodic reviews of all risk-taking units within the Bank, in addition to Risk Management.

Capital Management

The Group's capital management approach is designed to ensure that regulatory requirements are met at all times and that the Group's operating activities, including its branches and subsidiaries, are capitalized in line with the Group's risk appetite, target ratios and in accordance with local regulatory requirements.

The Bank's capital management approach further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the Group's budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the Group's annual Internal Capital Adequacy Assessment Process ICAAP. The capital management approach is set and governed primarily by the ALCO.

43 Risk management (continued)

Risk Appetite & Stress Testing

The key to the Group's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and strategy.

Risk Appetite for the Group is set and approved by the Group's Board. The Group's risk appetite is disseminated down to business groups in alignment with business strategies for these groups.

Stress testing is a key management tool within the Group used to evaluate the sensitivity of current and forward risk profiles to shocks of varying nature and severity. Stress testing within the Group is governed by the Group's stress testing policy which sets out the approaches for stress testing and associated roles and responsibilities. The primary governance committee overseeing risk appetite and stress testing is the ERC.

Internal Capital Adequacy Assessment Process (ICAAP)

The purpose of the ICAAP is to inform the Board of the ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

This entails the computation of the bank's aggregated Capital and the monitoring of the Group's capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Group's capital buffer (measured as available capital less required risk capital) and recommending actions, as warranted. The risk assessment is approved by the Board as part of the ICAAP submission.

Risks that are explicitly assessed through ICAAP are credit risk, market risk, operational risk, concentration risk, funding cost risk, business risk and interest rate risk in the banking book. Preserving the capital position remains a priority from both a regulatory and management viewpoint.

Credit risk management

Credit risk is the risk of suffering financial loss as a result of any of the Group's customers failing or unwilling to fulfil their contractual obligations to the Group. Credit risk arises mainly from loan and advances, loan commitments arising from such lending activities, trade finance and treasury activities but can also arise from financial guarantees, letter of credit, endorsements and acceptances. The Group is also exposed to other credit risks arising from investments in debts instruments, derivatives as well as settlement balances with market counterparties.

The Chief Credit Officer ("CCO") of the Group is responsible for overseeing all aspects of credit risk management supported by a team of experienced and trained credit risk managers. The CCO and credit risk managers have delegated authority within the risk management framework to approve credit transactions and manage credit risk on an ongoing basis.

43 Risk management (continued)

Credit risk management (continued)

Credit risk is the single largest risk from the Group's business of extending Loans and Advances (including loan commitments, LCs and LGs) and carrying out investment in securities and debts; management therefore carefully manages its exposure to credit risk. Credit risk management and controls are centralized under the CCO function with regular governance and monitoring exercised by the Board Risk Committee ("BRC"), Board Credit Committee ("BCC") and Enterprise Risk Committee ("ERC").

Specifically, BCC reviews and approves credit proposals that are beyond lending authorities delegated to management by the Board of Directors. In addition, BRC and BCC monitors key elements of the Bank's credit risk profile relative to the Bank's risk appetite. The Board Committees are supported by ERC through detailed review and monitoring of credit portfolio, including exposure concentrations.

An Early Alert Committee ("EAC") is also in place to review and proactively identify potential problematic exposures within CIBG and IBG business groups and determine appropriate strategies. The EAC, along with the IFRS 9 Forum (a forum in place to oversee all aspects of Mashreq's IFRS 9 framework), plays an important role in ensuring that credit fundamentals are linked to determination of Significant Increase in Credit Risk (SICR) and staging for IFRS 9 purposes.

<u>Loans and advances (including loan commitments, LCs and LGs)</u>

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using the concept of Expected Loss which requires the following measures:

-Probability of Default (PD)
-Loss Given Default (LGD)
-Exposure at Default (EAD)

Under IFRS 9 expected loss is replaced by Expected Credit Loss (ECL), which is based on macro adjusted PD, LGD & EAD measures. Additionally, it also captures deterioration and lifetime likelihood of defaults.

43 Risk management (continued)

Credit risk management (continued)

Credit risk grading

The Group use specific internal rating models tailored to various industry segments/counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input into the model. The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 6 and 8 rating grade is lower than the difference in the PD between a 18 and 20 rating grade.

The Risk Rating system for performing assets ranges from 1 to 25, each grade being associated with a PD. Non-performing borrowers are rated 50, 60, 70 and 80, corresponding to NAUR (Non-accrual Under Restructuring), Substandard, Doubtful, Loss classifications and 99 for Write-off.

Borrower risk ratings are mapped into the following 5 Grades:

Grade	Risk Rating	Definition
Grade 1	1-12	Low Risk
Grade 2	13-17	Satisfactory Risk
Grade 3	18-20	High Risk
Grade 4	21-25	Watch List
Grade 5	50,60,70,80	Impaired

The Group uses a bespoke Financial Institutions (“FI”) internal rating model to support the lending process. The FI Rating model consists of two major components: (i) the Financial – Macro Profile Analysis Assessment; and (ii) Business Analysis Assessment. Apart from the Financial and Business analysis factors, the model incorporates sovereign caps and consideration of group and government support, where applicable.

The FI rating model is utilized to rate all FI borrowers including those that are not externally rated. This rating is used to compute ECL staging for FI borrowers.

43 Risk management (continued)

Credit risk management (continued)

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a Significant Increase in Credit Risk ('SICR') since initial recognition is identified, then the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Amongst other factors, the identification of SICR is measured via a change in one year probability of default between the date of inception of facility and the date of IFRS 9 ECL run. Other factors include restructuring and account irregularities.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial assets in Stage 1 have their ECL measured at an amount equal to lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 have their ECL measured based on expected credit losses on a lifetime basis.
- Financial assets in Stage 3 are measured at an amount equal to lifetime expected credit losses or specific provision.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced SICR when a significant change in one year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date. In addition, a range of qualitative criteria are also considered.

Quantitative criteria

Corporate loans:
For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- Operating performance
- Operating efficiency
- Debt service/ covenant breaches
- Distressed restructure
- Account performance / irregularities
- Liquidity assessment
- Capital structure

43 Risk management (continued)

Credit risk management (continued)

Retail:
For Retail portfolio, if the borrowers meet one or more of the following criteria:

- Adverse findings for an account/ borrower as per credit bureau data;
- Loan rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

Treasury:
- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the investment's expected performance & behavior of borrower (collateral value, payment holiday, payment to income ratio etc.).

Qualitative criteria:

Corporate Loans

For corporate loans, the following is also considered in determining a significant increase in probability of default:

- Net worth erosion
- Fraudulent activity
- Significant operations disruption
- Departure of key members of management
- Industry outlook
- Income stability Unavailable/inadequate financial information/financial statements
- Qualified report by external auditors
- Pending significant litigation
- Increase in operational risk
- Continued delay and non-cooperation by the borrower in providing key relevant documentation

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2021 and 31 December 2020.

Backstop:

A borrower that is more than 30 days past due on its contractual obligations is presumed to have a significantly increased credit risk as a backstop unless this presumption can be reasonably rebutted on the basis of supportable forward-looking information. The borrower is also flagged in the system and is therefore subject to closer monitoring.

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets

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

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Qualitative criteria:

According to the Basel definition, default is considered to have occurred with regard to particular obligors when either one of the following events have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Bank to actions like realizing security (if held).
- The Bank puts the credit obligation on a non-accrued status.
- The Bank makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Bank taking on the exposure.
- The Bank sells the credit obligation at a material credit-related economic loss.
- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees.
- The Bank has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Banking Group.
- The obligor is past due more than 90 days on any material credit obligation to the Banking Group.

The criteria above has been applied to all financial instruments held by the Group and is consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Group has adopted a forward exposure method for computing the ECL for each facility. The bank has opted for a monthly granular computation of PD, EAD and LGD.

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

Lifetime expected credit losses are expected credit loss resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

During economically challenging periods, the Group may choose to increase the scenario weightage of the pessimistic scenario under guidance from respective regulatory authorities in order to maintain higher level of ECL provisions & lower the scenario weightage of pessimistic scenario once a favourable trend is noticed in the macro economic climate. Such a change was effectuated in 2020 to reflect the impact of COVID-19, where the scenario weightage of the pessimistic scenario was increased to 80%. Further details are included on COVID-19 impact on measurement of ECL section.

The Group has implemented risk rating models since 2005 which has enabled the Bank to rate borrowers based on their financial and qualitative information. The segmentation of these models was revisited in 2021 to introduce a new corporate model to rate large corporates. Rating outputs from all rating models are further used as an input into IFRS 9 macroeconomic models to derive a PD term structure for each rating grade in the IFRS 9 ECL computation. The Group has also revised the IFRS 9 macroeconomic models for UAE and Bahrain Corporates to include recent data.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month period or lifetime basis.
- For revolving committed products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining committed limit by the time of default.
- For contingent products like LC & LG, the exposure at default is predicted using a Credit conversion factor inline with the Basel regulatory guidelines.

The Group has adopted a workout methodology for LGD computation. For the Corporate segment, the Bank has developed the LGD framework using more than 21 years of data.

The LGDs are determined based on the factors which impact recoveries made following default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set by different borrower segments (e.g. Corporates, Financial Institutions etc.) in order to reflect differences in asset structures, collection strategies and historical recovery experience.

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

The Group has revised the Wholesale LGD framework during 2020 in order to reflect recent recovery experience and additional admissible security types. Forward-looking economic information is also included in determining the 12-month and lifetime PD.

Forward looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the ECL parameters vary by geographies and borrower types. Impact of these economic variables on historical default rates is determined by performing statistical regression analysis to understand the relationship between these variables. Once the relationship has been established, the bank utilizes macroeconomic data for these variables from Moody's (Economy.com) and other recognized external sources (e.g. IMF) to obtain historical information and forecasts under base, optimistic and pessimistic scenarios. Expert judgement is applied in the process where the economic relationship between variables is weak or the forecast is deemed imprudent.

For unbiased and probability-weighted ECL calculation, the Group uses probabilities of 60%, 20% and 20% for baseline, optimistic and pessimistic macro-economic scenario respectively based on expert judgement in order to represent majority weight to base and an even weight to the rest. Refer to COVID-19 impact on measurement of ECL section for sensitivity analysis on probability-weighted ECL calculation.

Following are the macroeconomic variables used in the IFRS 9 PD models across different geographies:

1. Current Account to GDP
2. Equity Index (Abu Dhabi)
3. Budget Expenditure to GDP
4. Oil Price
5. GDP
6. Industrial Production

43 Risk management (continued)

Credit risk management (continued)

Sensitivity analysis

The Group has calculated ECL for wholesale borrowers at an individual financial instrument level and portfolio level for retail borrowers.

The most significant macroeconomic variables affecting the ECL allowance in respect of retail and wholesale credit portfolios are as follows:

- Current Account to GDP (Change)
- Abu Dhabi Equity Index (Change)
- Oil price

The Group has performed a sensitivity analysis on how ECL on the credit portfolio will change if the key assumptions used to calculate ECL change by a certain percentage. The impact on ECL due to changes in the forecasted probabilities of default as a result of variations in Total Debt to GDP and Broad Money by +10% / -10% in each scenario would result in an ECL reduction by AED 79 million and an ECL increase AED 101 million respectively. These variations are applied simultaneously to each probability weighted scenarios used to compute the 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.

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets:

	2021				2020			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Cash and balances with Central Bank	**17,507,751**	**-**	**-**	**17,507,751**	17,941,941	-	-	17,941,941
Loss allowance	**-**	**-**	**-**	-	-	-	-	-
Carrying amount	**17,507,751**	**-**	**-**	**17,507,751**	17,941,941	-	-	17,941,941
Deposits and balances due from banks								
Investment-grade	**5,765,434**	**72,762**	**-**	**5,838,196**	7,217,923	117,961	-	7,335,884
BB+ & below	**12,103,401**	**1,360,385**	**-**	**13,463,786**	5,598,832	2,926,065	-	8,524,897
Unrated	**8,114,789**	**1,476,877**	**78,946**	**9,670,612**	9,978,354	2,480,994	85,023	12,544,371
	25,983,624	**2,910,024**	**78,946**	**28,972,594**	22,795,109	5,525,020	85,023	28,405,152
Loss allowance	**(92,130)**	**(14,417)**	**(60,952)**	**(167,499)**	(69,256)	(41,409)	(55,457)	(166,122)
Carrying amount	**25,891,494**	**2,895,607**	**17,994**	**28,805,095**	22,725,853	5,483,611	29,566	28,239,030

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2021			
	Stage 1	**Stage 2**	**Stage 3**	
Loans and advances -At amortised cost	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Grading 1	**9,078,535**	**6,076**	**-**	**9,084,611**
Grading 2	**36,528,058**	**668,497**	**-**	**37,196,555**
Grading 3	**16,703,319**	**3,831,848**	**-**	**20,535,167**
Grading 4	**111,610**	**1,140,026**	**-**	**1,251,636**
Grading 5	**-**	**-**	**4,458,678**	**4,458,678**
	62,421,522	**5,646,447**	**4,458,678**	**72,526,647**
Loss allowance	**(511,719)**	**(1,235,239)**	**(4,347,119)**	**(6,094,077)**
Carrying amount	**61,909,803**	**4,411,208**	**111,559**	**66,432,570**
Islamic financing and investment products measured at amortised cost				
Grading 1	**2,006,169**	**4**	**-**	**2,006,173**
Grading 2	**6,932,848**	**228,169**	**-**	**7,161,017**
Grading 3	**5,150,110**	**360,932**	**-**	**5,511,042**
Grading 4	**838**	**25,927**	**-**	**26,765**
Grading 5	**-**	**-**	**975,420**	**975,420**
	14,089,965	**615,032**	**975,420**	**15,680,417**
Loss allowance	**(51,011)**	**(12,106)**	**(563,846)**	**(626,963)**
Carrying amount	**14,038,954**	**602,926**	**411,574**	**15,053,454**

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2020			
Loans and advances -At amortised cost	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Grading 1	9,232,853	237,741	-	9,470,594
Grading 2	39,652,752	1,218,419	-	40,871,171
Grading 3	4,788,340	2,156,715	-	6,945,055
Grading 4	133,659	1,693,075	-	1,826,734
Grading 5	-	-	3,576,483	3,576,483
	53,807,604	5,305,950	3,576,483	62,690,037
Loss allowance	(556,764)	(2,274,612)	(2,572,250)	(5,403,626)
Carrying amount	53,250,840	3,031,338	1,004,233	57,286,411
Islamic financing and investment products measured at amortised cost				
Grading 1	2,518,566	3,073	-	2,521,639
Grading 2	8,111,630	104,287	-	8,215,917
Grading 3	2,646,357	86,713	-	2,733,070
Grading 4	24,766	97,351	-	122,117
Grading 5	-	-	1,060,930	1,060,930
	13,301,319	291,424	1,060,930	14,653,673
Loss allowance	(58,112)	(12,530)	(336,688)	(407,330)
Carrying amount	13,243,207	278,894	724,242	14,246,343

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2021			
	Stage 1	**Stage 2**	**Stage 3**	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other financial assets measured at amortised cost				
Investment-grade	**6,378,347**	**-**	**-**	**6,378,347**
BB+ & below	**3,556,040**	**-**	**-**	**3,556,040**
Unrated	**365,740**	**-**	**2,205**	**367,945**
	10,300,127	**-**	**2,205**	**10,302,332**
Loss allowance	**(22,303)**	**-**	**(2,205)**	**(24,508)**
Carrying amount	**10,277,824**	**-**	**-**	**10,277,824**
Other financial assets measured at FVTOCI (debt securities)				
Investment-grade	**7,750,595**	**-**	**-**	**7,750,595**
BB+ & below	**644,747**	**-**	**-**	**644,747**
Unrated	**5,090,331**	**-**	**-**	**5,090,331**
	13,485,673	**-**	**-**	**13,485,673**
Loss allowance	**(4,954)**	**-**	**-**	**(4,954)**
Carrying amount	**13,480,719**	**-**	**-**	**13,480,719**

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2020			
Credit risk exposures relating to on-balance sheet assets are as follows:	**Stage 1** **12-month** **AED'000**	**Stage 2** **Lifetime** **AED'000**	**Stage 3** **Lifetime** **AED'000**	**Total** **AED'000**
Other financial assets measured at amortised cost				
Investment-grade	7,483,893	-	-	7,483,893
BB+ & below	3,170,045	-	-	3,170,045
Unrated	365,740	-	2,205	367,945
	11,019,678	-	2,205	11,021,883
Loss allowance	(19,024)	-	(2,205)	(21,229)
Carrying amount	11,000,654	-	-	11,000,654
Other financial assets measured at FVTOCI (debt securities)				
Investment-grade	6,266,974	-	-	6,266,974
BB+ & below	205,550	-	-	205,550
Unrated	43	-	-	43
	6,472,567	-	-	6,472,567
Loss allowance	(1,601)	-	-	(1,601)
Carrying amount	6,470,966	-	-	6,470,966

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other assets	**-**	**566,636**	**435,185**	**1,001,821**	-	585,565	428,432	1,013,997
Loss allowance	**-**	**(19,743)**	**(419,613)**	**(439,356)**	-	(17,789)	(413,188)	(430,977)
Carrying amount	**-**	**546,893**	**15,572**	**562,465**	-	567,776	15,244	583,020
Acceptances	**14,137,040**	**203,631**	**-**	**14,340,671**	12,680,894	86,567	-	12,767,461
Loss allowance	**(25,618)**	**(3,787)**	**-**	**(29,405)**	(25,277)	(1,021)	-	(26,298)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2021				**2020**			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
Credit risk exposures relating to off-balance sheet items are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Letters of credit	**13,957,351**	**1,767,518**	**60,916**	**15,785,785**	7,772,256	1,396,332	67,013	9,235,601
Guarantees	**28,330,800**	**4,195,544**	**1,180,171**	**33,706,515**	35,097,006	2,858,541	2,314,700	40,270,247
Undrawn credit commitments -Irrevocable	**7,832,021**	**118,026**	**-**	**7,950,047**	6,244,126	3,556	-	6,247,682
	50,120,172	**6,081,088**	**1,241,087**	**57,442,347**	49,113,388	4,258,429	2,381,713	55,753,530
Loss allowance	**(62,093)**	**(38,680)**	**(408,594)**	**(509,367)**	(66,481)	(50,963)	(325,000)	(442,443)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

The table below shows the maximum exposure to credit risk for financial assets that are not subject to impairment.

	2021 AED'000	2020 AED'000
Trading assets		
- Debt securities	**1,548,129**	815,671
- Derivatives	**929,573**	1,406,654
Hedging derivatives	**98,613**	105,759
	2,576,315	2,328,084

Risk management in the current economic scenario

Economic fallout from COVID-19 crisis continues to be significant and rapidly evolving at the present time. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. As at 31 December 2021, the Group has not utilized (31 December 2020: AED 753 million) the Zero Coupon Facility ("ZCF") available under CBUAE Targeted Economic Support Scheme ("TESS") that was launched in April 2020 as a countermeasure to COVID-19.

While the Group continues to closely monitor the situation and work closely with clients to work through any residual elements of COVID-19 related stresses, it is management's view that economic risks associated with the pandemic are moderating. A majority of the wholesale and retail banking customers who had previously availed deferral schemes from the bank have now resumed repayment. The proportion of customers utilizing the deferral schemes have declined compared to the prior year. The Group also continues to manage specific credit concerns resulting from the crisis, particularly for clients within directly impacted sectors, such as aviation, hospitality, contracting, travel & tourism, and retail sectors. Overall, the Group continues to apply sound judgment in managing any residual COVID-19 impact on its clients' cash flows and credit worthiness.

COVID-19 impact on measurement of ECL

The Group has robust governance in place to ensure appropriateness of the IFRS 9 framework and resultant Expected Credit Loss ("ECL") estimates at all times. Specifically, all aspects of the IFRS 9 framework are overseen by the ERC and the IFRS 9 Forum ("the forum"). The forum is chaired by the Head of Enterprise Risk Management with participation from business, Finance, credit & risk management departments. The Group, through the forum, reviews the appropriateness of inputs and methodology for ECL on an ongoing basis.

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

In recognition of significant economic uncertainty due to the COVID-19 crisis and the associated challenge with applying IFRS 9 principles and requirements under these circumstances, CBUAE, Dubai Financial Services Authority ("DFSA") and the Financial Services Regulatory Authority (the "FSRA") jointly issued a guidance note to Banks and Finance companies ("Joint Guidance") in UAE on 15 April 2020 relating to estimation of IFRS 9 ECL provisions in context of the COVID-19 crisis. In addition, an addendum to the Joint Guidance was issued on 27 October 2020. The Group has taken into consideration provisions of the Joint Guidance and the addendum in all areas of the IFRS 9 framework and in estimating ECL for the year.

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in macroeconomic environment, risk profile as well as any actual and expected increase in credit risk.

The outcome of the review is as follows:

(i) Classification of clients benefitting from payment deferrals into two groups; (a) Group 1: clients those are temporarily and mildly impacted; and (b) Group 2: clients that are significantly impacted and could see potential stage migrations:; and

(ii) Revision to IFRS 9 model inputs pertaining to macroeconomic forecasts.

Grouping of clients have been carried out based on an assessment of Significant Increase in Credit Risk ("SICR") for clients benefiting from payment deferrals. The Group has applied knowledge of its clients and judgement in assessing SICR and whether the impact of COVID-19 is temporary or longer term. Specifically, clients that are expected to face liquidity constraints without substantial changes in their creditworthiness have been classified in Group 1. For these clients, the Group holds the view that, despite being subject to payment deferrals, there is insufficient deterioration in credit quality to trigger a stage migration. On the other hand, clients that are expected to face substantial changes in their creditworthiness beyond liquidity issues have been classified as Group 2. Ultimately grouping of borrowers assists in determining whether a stage migration is warranted.

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

As at 31 December 2021, the proportion of clients benefitting from deferrals along with their exposures and ECL is as follows:

		Group 1		Group 2	
Sector	Total gross carrying amount	Gross carrying amount	ECL	Gross carrying amount	ECL
		AED (in million)			
Manufacturing	13,283	10	-	-	-
Construction	8,814	302	1	37	-
Trade	15,708	1,184	28	44	1
Transport and communication	3,358	282	13	-	-
Services	10,061	1,883	9	52	5
Financial institutions	3,631	82	-	-	-
Personal*	12,528	1,334	36	504	76
Residential mortgage*	8,022	1,296	3	484	6
Government and related enterprises	14,334	96	-	-	-
	89,739	6,469	90	1,121	88

*The above category of "Personal" and "Residential Mortgage" mainly comprises of Retail portfolio of the Bank.

The Bank has deferred payments for customers inline with the economic relief programmes announced in the countries, where the Bank operates. Due to the payment deferrals, the contractual cashflows from these credit exposures (gross carrying amount of AED 2.9 billion) have been modified and in accordance with IFRS 9 requirements the Group has recognized a modification loss of AED 43 million, which is included as part of the ECL.

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

The summary of customers benefiting from deferrals as at 31 December 2021 is as follows:

Stage	Group	Number of clients deferred	Payment deferrals	Exposure	Impairment allowance
			AED (in million)		
	Group 1	19,966	990	5,461	52
Stage 1	Group 2	3	66	66	-
		19,969	1,056	5,527	52
	Group 1	109	212	1,008	38
Stage 2	Group 2	6,824	180	1,055	87
		6,933	392	2,063	125
	Total	26,902	1,448	7,590	177

Reasonableness of ECL estimates under COVID-19 crisis

The Group performs historical analysis to determine key economic variables that impact credit risk across different portfolios. Macroeconomic forecasts for these economic variables are used to estimate risk parameters (PD and LGD) on a forward-looking basis for all borrowers and instruments that are in scope of IFRS 9 ECL framework.

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

Reasonableness of ECL estimates under COVID-19 crisis (continued)

In accordance with IFRS 9 requirements, the Group estimates these risk parameters under optimistic, base and pessimistic scenarios with representative weights used to measure ECL. In accordance with provisions of the Joint Guidance, the Group updated macroeconomic forecasts in 2021 to estimate ECL. At the same time, the Group reintroduced normalized scenario probability[1] across base, optimistic and pessimistic scenarios. No changes have been introduced in 2021 to the scenario weights used in IFRS 9 ECL computations.

From a sensitivity analysis point of view, if the pessimistic scenario was changed by +10% / -10%, ECL would reduce by AED 25 million and increase by AED 24 million respectively.

The Group had previously maintained a Credit Judgmental Overlay (“JO”) of AED 175 million to reflect potential increase in credit risk emanating from impact of COVID 19 in the credit cycle. The Group is of the view that risks associated with the pandemic have now mostly crystalized and are reflected in the business performance. Accordingly, the JO has been discontinued during the year. Even though the JO has been discontinued, the Group continues to closely monitor the impact of COVID-19 crisis on credit portfolios and overall levels of credit risk. Most corporate borrowers within vulnerable sectors have been internally re-rated in 2021 using their most up to date financial position. Accordingly, any deterioration in credit quality since the onset of the pandemic is now reflected in the ECL estimation.

[1] Normalized scenario probability is based on 60% Base, 20% Optimistic and 20% Pessimistic scenario probability. Q2 utilized 80% pessimistic and 20% base scenario probability.

43 Risk management (continued)

Credit risk management (continued)

Collateral and other credit enhancements

Collateral against loans and advances measured at amortised cost is generally held in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing. Collateral generally is not held over amounts due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group maintains substantial real estate and cash collateral, which also forms majority of the collateral base. The benefit of such collateral gets reflected in ECL through the LGD estimates. Allocation of both general and specific collateral is done at a facility level to estimate LGD. Financial instruments such as Repo transactions, embedded leverage note programs, etc. receive no ECL allocation on account of them being fully collateralized after application of relevant haircuts.

The Group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Group will take possession of the collateral to offset potential credit losses. Financial assets that are credit impaired and related collateral held in order to offset potential losses are shown below. The table below details the fair value of the collateral which is updated regularly:

	Loans and advances and Islamic financing and investment products		**Due from banks**	
	31 December 2021 AED'000	31 December 2020 AED'000	**31 December 2021 AED'000**	31 December 2020 AED'000
Against individually impaired:				
Properties	**784,532**	1,264,662	**-**	-
Cash	**45,332**	97,259	**-**	-
Others	**241,030**	197,403	**-**	-
	1,070,894	1,559,324	**-**	-
Against not impaired:				
Properties	**21,929,281**	24,222,693	**-**	-
Equities	**928,144**	715,766	**-**	-
Cash	**17,068,995**	15,490,902	**1,291,248**	1,137,424
Others	**4,831,537**	6,475,362	**-**	-
	44,757,957	46,904,723	**1,291,248**	1,137,424
Total	**45,828,851**	48,464,047	**1,291,248**	1,137,424

43 Risk management (continued)

Loss allowance

The following tables explain the changes in the loss allowance for the year ended 31 December 2021 and 31 December 2020:

	2021				2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Deposits and balances due from banks								
Loss allowance as at 1 January	**69,256**	**41,409**	**55,457**	**166,122**	89,419	5,963	13,220	108,602
Transfers								
Transfer from Stage 1 to Stage 2	**(13,022)**	**13,022**	**-**	**-**	(41,366)	41,366	-	-
Transfer from Stage 2 to Stage 3	**-**	**(1)**	**1**	**-**	-	-	-	-
Transfer from Stage 2 to Stage 1	**37**	**(37)**	**-**	**-**	3	(3)	-	-
New financial assets originated	**96,237**	**-**	**-**	**96,237**	108,536	-	-	108,536
Changes in PDs/LGDs/EADs	**(60,378)**	**(39,976)**	**5,494**	**(94,860)**	(87,336)	(5,917)	42,237	(51,016)
Loss allowance as at 31 December	**92,130**	**14,417**	**60,952**	**167,499**	69,256	41,409	55,457	166,122

43 Risk management (continued)

Loss allowance (continued)

	2021				2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Loans and advances measured at amortised cost								
Loss allowance as at 1 January	**556,764**	**2,274,612**	**2,572,250**	**5,403,626**	435,818	1,498,488	1,910,065	3,844,371
Transfers								
Transfer from Stage 1 to Stage 2	**(149,949)**	**149,949**	**-**	**-**	(394,706)	394,706	-	-
Transfer from Stage 1 to Stage 3	**(15,085)**	**-**	**15,085**	**-**	(30,878)	-	30,878	-
Transfer from Stage 2 to Stage 1	**1,240**	**(1,240)**	**-**	**-**	12,720	(12,720)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(747,341)**	**747,341**	**-**	-	(96,221)	96,221	-
Transfer from Stage 3 to Stage 2	**-**	**-**	**-**	**-**	-	155	(155)	-
New financial assets originated	**297,592**	**-**	**-**	**297,592**	592,872	-	-	592,872
Changes in PDs/LGDs/EADs	**(178,843)**	**(440,741)**	**2,041,979**	**1,422,395**	(59,062)	490,204	1,671,469	2,102,611
Write-offs	**-**	**-**	**(1,029,536)**	**(1,029,536)**	-	-	(1,136,228)	(1,136,228)
Loss allowance as at 31 December	**511,719**	**1,235,239**	**4,347,119**	**6,094,077**	556,764	2,274,612	2,572,250	5,403,626

43 Risk management (continued)

Loss allowance (continued)

	2021				2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Islamic financing and investment products measured at amortised cost								
Loss allowance as at 1 January	**58,112**	**12,530**	**336,688**	**407,330**	39,795	6,151	82,644	128,590
Transfers								-
Transfer from Stage 1 to Stage 2	**(2,602)**	**2,602**	**-**	**-**	(11,818)	11,818	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(4,001)	-	4,001	-
Transfer from Stage 2 to Stage 1	**2**	**(2)**	**-**	**-**	6	(6)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(419)**	**419**	**-**	-	(4,179)	4,179	-
New financial assets originated	**30,371**	**-**	**-**	**30,371**	42,916	-	-	42,916
Changes in PDs/LGDs/EADs	**(34,872)**	**(2,605)**	**226,970**	**189,493**	(8,786)	(1,254)	307,465	297,425
Write-offs	**-**	**-**	**(231)**	**(231)**	-	-	(61,601)	(61,601)
Loss allowance as at 31 December	**51,011**	**12,106**	**563,846**	**626,963**	58,112	12,530	336,688	407,330

43 Risk management (continued)

Loss allowance (continued)

	2021				2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Other financial assets measured at amortised cost								
Loss allowance as at 1 January	**19,024**	**-**	**2,205**	**21,229**	19,047	5,113	2,205	26,365
Transfers								
Transfer from Stage 1 to Stage 2	**-**	**-**	**-**	**-**	-	-	-	-
New financial assets originated	**12,780**	**-**	**-**	**12,780**	12,619	-	-	12,619
Changes in PDs/LGDs/EADs	**(9,501)**	**-**	**-**	**(9,501)**	(12,642)	(5,113)	-	(17,755)
Loss allowance as at 31 December	**22,303**	**-**	**2,205**	**24,508**	19,024	-	2,205	21,229

43 Risk management (continued)

Loss allowance (continued)

	2021				2020			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Other assets								
Loss allowance as at 1 January	**-**	**17,789**	**413,188**	**430,977**	-	20,769	437,100	457,869
Transfers								
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-	-	-	-
Changes in PDs/LGDs/EADs	**-**	**2,212**	**21,693**	**23,905**	-	(2,960)	15,839	12,879
FX and other movements	**-**	**-**	**(2,875)**	**(2,875)**	-	-	-	-
Write-offs	**-**	**(258)**	**(12,393)**	**(12,651)**	-	(20)	(39,751)	(39,771)
Loss allowance as at 31 December	**-**	**19,743**	**419,613**	**439,356**	-	17,789	413,188	430,977

43 Risk management (continued)

Loss allowance (continued)

	2021				2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
LCs, LGs, irrevocable undrawn commitments and acceptances								
Loss allowance as at 1 January	**91,757**	**51,984**	**325,000**	**468,741**	99,099	59,686	-	158,785
Transfers								-
Transfer from Stage 1 to Stage 2	**(14,239)**	**14,239**	**-**	**-**	(6,417)	6,417	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(97,972)	-	97,972	-
Transfer from Stage 2 to Stage 1	**3,071**	**(3,071)**	**-**	**-**	1,845	(1,845)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(86)**	**86**	**-**	-	(6,863)	6,863	-
Transfer from Stage 3 to Stage 2	**-**	**-**	**-**	**-**	-	607	(607)	-
New financial assets originated	**69,292**	**-**	**-**	**69,292**	155,606	-	-	155,606
Changes in PDs/LGDs/EADs	**(62,170)**	**(20,599)**	**83,508**	**739**	(60,404)	(6,018)	220,772	154,350
Loss allowance as at 31 December	**87,711**	**42,467**	**408,594**	**538,772**	91,757	51,984	325,000	468,741

43 Risk management (continued)

Gross carrying amount

The following tables further explains the changes in the gross carrying amount for the year ended 31 December 2021 and 31 December 2020:

	2021				2020			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Cash and balances with central banks								
Gross carrying amount as at 1 January	**17,941,941**	**-**	**-**	**17,941,941**	20,939,700	-	-	20,939,700
New financial assets originated	**2,800,000**	**-**	**-**	**2,800,000**	9,550,000	-	-	9,550,000
Repayments and other movements	**(3,234,190)**	**-**	**-**	**(3,234,190)**	(12,547,759)	-	-	(12,547,759)
Gross carrying amount as at 31 December	**17,507,751**	**-**	**-**	**17,507,751**	17,941,941	-	-	17,941,941

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Deposits and balances due from banks								
Gross carrying amount as at 1 January	**22,795,110**	**5,525,019**	**85,023**	**28,405,152**	25,348,120	1,288,001	38,329	26,674,450
Transfers								
Transfer from Stage 1 to Stage 2	**(2,849,582)**	**2,849,582**	**-**	**-**	(5,326,464)	5,326,464	-	-
Transfer from Stage 2 to Stage 1	**1,987**	**(1,987)**	**-**	**-**	1,415	(1,415)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(14)**	**14**	**-**	-	-	-	-
New financial assets originated	**25,953,680**	**-**	**-**	**25,953,680**	25,956,861	-	-	25,956,861
Repayments and other movements	**(19,917,571)**	**(5,462,576)**	**(6,091)**	**(25,386,238)**	(23,184,822)	(1,088,031)	46,694	(24,226,159)
Gross carrying amount as at 31 December	**25,983,624**	**2,910,024**	**78,946**	**28,972,594**	22,795,110	5,525,019	85,023	28,405,152

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Other financial assets measured at amortised cost and FVTOCI (debt securities)								
Gross carrying amount as at 1 January	**17,492,244**	**-**	**2,205**	**17,494,449**	12,357,332	1,009,106	2,205	13,368,643
New financial assets originated	**11,787,603**	**-**	**-**	**11,787,603**	9,391,139	-	-	9,391,139
Repayments and other movements	**(5,494,047)**	**-**	**-**	**(5,494,047)**	(4,256,227)	(1,009,106)	-	(5,265,333)
Gross carrying amount as at 31 December	**23,785,800**	**-**	**2,205**	**23,788,005**	17,492,244	-	2,205	17,494,449

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Loans and advances measured at amortised cost								
Gross carrying amount as at 1 January	**53,807,604**	**5,305,950**	**3,576,483**	**62,690,037**	57,261,500	5,141,967	3,151,181	65,554,648
Transfers								
Transfer from Stage 1 to Stage 2	**(3,655,063)**	**3,655,063**	**-**	**-**	(3,922,161)	3,922,161	-	-
Transfer from Stage 1 to Stage 3	**(222,739)**	**-**	**222,739**	**-**	(420,580)	-	420,580	-
Transfer from Stage 2 to Stage 3	**-**	**(969,760)**	**969,760**	**-**	-	(928,334)	928,334	-
Transfer from Stage 3 to Stage 2	**-**	**14**	**(14)**	**-**	-	1,249	(1,249)	-
Transfer from Stage 2 to Stage 1	**80,278**	**(80,278)**	**-**	**-**	378,362	(378,362)	-	-
New financial assets originated	**38,703,246**	**-**	**-**	**38,703,246**	34,226,398	-	-	34,226,398
Repayments and other movements	**(26,291,804)**	**(2,264,542)**	**719,246**	**(27,837,100)**	(33,715,915)	(2,452,731)	213,865	(35,954,781)
Write-offs	**-**	**-**	**(1,029,536)**	**(1,029,536)**	-	-	(1,136,228)	(1,136,228)
Gross carrying amount as at 31 December	**62,421,522**	**5,646,447**	**4,458,678**	**72,526,647**	53,807,604	5,305,950	3,576,483	62,690,037

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Islamic financing and other investments measured at amortised cost								
Gross carrying amount as at 1 January	**13,301,319**	**291,424**	**1,060,930**	**14,653,673**	13,718,735	532,172	334,440	14,585,347
Transfers								
Transfer from Stage 1 to Stage 2	**(319,103)**	**319,103**	**-**	**-**	(211,891)	211,891	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(367,862)	-	367,862	-
Transfer from Stage 2 to Stage 3	**-**	**(5,396)**	**5,396**	**-**	-	(65,008)	65,008	-
Transfer from Stage 2 to Stage 1	**1,931**	**(1,931)**	**-**	**-**	10,679	(10,679)	-	-
New financial assets originated	**7,985,879**	**-**	**-**	**7,985,879**	7,880,139	-	-	7,880,139
Repayments and other movements	**(6,880,061)**	**11,832**	**(90,675)**	**(6,958,904)**	(7,728,481)	(376,952)	355,221	(7,750,212)
Write-offs	**-**	**-**	**(231)**	**(231)**	-	-	(61,601)	(61,601)
Gross carrying amount as at 31 December	**14,089,965**	**615,032**	**975,420**	**15,680,417**	13,301,319	291,424	1,060,930	14,653,673

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Other assets								
Gross carrying amount as at 1 January	**-**	**585,565**	**428,432**	**1,013,997**	-	597,644	459,230	1,056,874
Repayments and other movements	**-**	**(18,671)**	**19,146**	**475**	-	(12,059)	8,953	(3,106)
Write-offs	**-**	**(258)**	**(12,393)**	**(12,651)**	-	(20)	(39,751)	(39,771)
Gross carrying amount as at 31 December	**-**	**566,636**	**435,185**	**1,001,821**	-	585,565	428,432	1,013,997
Acceptances								
Gross carrying amount as at 1 January	**12,680,894**	**86,567**	**-**	**12,767,461**	12,749,871	153,212	-	12,903,083
Transfers					-	-	-	-
Transfer from Stage 1 to Stage 2	**(182,817)**	**182,817**	**-**	**-**	(91,840)	91,840	-	-
Transfer from Stage 2 to Stage 1	**-**	**-**	**-**	**-**	394	(394)	-	-
New financial assets originated	**16,073,629**	**-**	**-**	**16,073,629**	13,132,880	-	-	13,132,880
Repayments and other movements	**(14,434,666)**	**(65,753)**	**-**	**(14,500,419)**	(13,110,411)	(158,091)	-	(13,268,502)
Gross carrying amount as at 31 December	**14,137,040**	**203,631**	**-**	**14,340,671**	12,680,894	86,567	-	12,767,461

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
	12-month AED'000	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Off-balance sheet items								
At 1 January	**49,113,388**	**4,258,429**	**2,381,713**	**55,753,530**	55,481,252	3,250,260	-	58,731,512
Transfers								
Transfer from Stage 1 to Stage 2	**(3,809,733)**	**3,809,733**	**-**	**-**	(2,124,307)	2,124,307	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(2,334,330)	-	2,334,330	-
Transfer from Stage 2 to Stage 3	**-**	**(16,140)**	**16,140**	**-**	-	(235,353)	235,353	-
Transfer from Stage 3 to Stage 2	**-**	**-**	**-**	**-**	-	1,127	(1,127)	-
Transfer from Stage 2 to Stage 1	**182,400**	**(182,400)**	**-**	**-**	179,362	(179,362)	-	-
New financial assets originated	**20,878,779**	**-**	**-**	**20,878,779**	17,717,819	-	-	17,717,819
Repayment and other movements	**(16,244,662)**	**(1,788,534)**	**(1,156,766)**	**(19,189,962)**	(19,806,408)	(702,550)	(186,843)	(20,695,801)
At 31 December	**50,120,172**	**6,081,088**	**1,241,087**	**57,442,347**	49,113,388	4,258,429	2,381,713	55,753,530

43 Risk management (continued)

Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may write-off financial assets but they are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owned in full, but which have been partially or fully written off due to no reasonable expectation of recovery.

Modification of financial assets

The Group modifies terms of loans provided to customers from time-to-time primarily due to ongoing client needs, commercial renegotiations or for managing distressed loans. The Bank has also modified terms for customers in line with COVID-19 economic relief programmes announced in countries where the Bank operates. Refer COVID-19 impact on measurement of ECL section for details on loans modified during the year.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial, it does not result in derecognition of the original asset. The Group may determine that credit risk has significantly improved after restructuring, and such assets are moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12 month ECL). This is only done when modified assets have performed in accordance with the new terms for twelve consecutive months or more.

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk excludes strategic and reputational risk.

43 Risk management (continued)

Operational Risk Governance

Whilst the Group cannot eliminate all operational risks, it has developed a comprehensive framework of identifying, assessing, controlling, mitigating, monitoring and reporting Operational risk and consists of the following:

- Ownership of the risk & controls by businesses and functional units;
- Monitoring and validation by business;
- Oversight by Operational risk management team; and
- Independent review by Internal Audit

Operational risk management follows three lines of defence model;

The first line of defence is the Business Line Management. The operational risk governance will recognize that Business Units (BUs) are the owners of risk and hence responsible for identifying and managing the risks, inherent in the products, services and activities, within their BUs.

The second line of defence is the Operational Risk Management function, the Chief Risk Officer, the Operational Risk Committee (ORC) and the Enterprise Risk Committee. They are collectively responsible for designing, implementing, coordinating, reporting and facilitating effective Operational Risk Management on Group-wide basis.

The third line of defence is the Internal Audit who are responsible to independently assess the effectiveness and efficiency of the internal control, and for independently validate and provide an independent assurance to the Board Audit Committee (BAC) on the adequacy and effectiveness of the Operational Risk Management Framework.

The Board, through the Board Risk Committee, has the overall responsibility for managing operational risk at the Bank and ensure that the three line of defence approach is implemented and operated in an appropriate and acceptable manner.

The Group has adopted The Standardized Approach (TSA) to determine its operational risk capital requirements.

Operational Risk Appetite

The Group's operational risk appetite articulates the boundaries for quantitative and qualitative operational risks that the Bank is willing to take (or not take), with respect to pursuit of its strategic objectives. It helps in setting the risk culture across the Bank and facilitates an effective implementation of the Bank's Operational Risk Management Framework. The operational risk appetite is applied for decision-making and comprehending operational risk exposures across the Bank through implementation of policies, controls and operational risk tolerances.

43 Risk management (continued)

Operational Risk Management Framework

The Group's Operational Risk Management Framework ("ORMF") is a set of interrelated tools and processes that are used to identify, assess, measure, monitor and remediate operational risks. Its components have been designed to operate together to provide a comprehensive approach to managing the Group's most material operational risks. ORMF components include the setup of the three lines of defence as well as roles and responsibilities for the Operational Risk management process and appropriate independent challenge, the Group's approach to setting Operational Risk appetite and adhering to it, the Operational Risk type and control taxonomies, the minimum standards for Operational Risk management processes including tools, independent governance, and the Bank's Operational Risk capital model. Tools implemented for the identification and assessment of Operational risk include and is not limited to:

a) Risk and Control Self-Assessment
b) Operational Risk Event Management
c) Key Risk Indicator Management
d) New Business Systems & Process Approval (NPPA); and
e) Issues and Action Management

43 Risk management (continued)

Incident management

The reporting of Operational risk incidents is a critical component of the Group's Operational risk management framework. This ensures greater risk transparency across the organisation and helps to identify gaps and facilitate timely remedial action for potential risk exposures.

The Central Bank of U.A.E. published final guidelines on operational risk management in October 2018. These guidelines lay out detailed supervisory expectations relating to operational risk governance, identification and assessment, systems and reporting.

The Group is in the process of assessing the Group's operational risk management framework in light of publication of operational risk management regulation by the Central Bank of U.A.E.

Market Risk Management

Market risk is the risk that fair value or cash flows of financial instruments held by the Group or its income may be adversely affected by movement in market factors, such as interest rates, credit spreads, foreign exchange rates, equity and commodity prices.

Market risk at the Group is governed by a comprehensive control framework as defined by the approved Market Risk Framework. This function is independent of any risk taking businesses. The Market Risk function folds under Risk Management Group and reports to the Chief Risk Officer of the Group.

Market risk arises from the Group's trading and non-trading activities. The Market Risk Management function primarily manages risks arising from its proprietary trading activities. Risk exposure arising from non-trading activities is managed by the Assets & Liabilities Committee (ALCO). Trading risks are primarily concentrated in Treasury and Capital Markets (TCM) and are managed by a robust framework of market risk limits that reflect the Group's market risk appetite. Appropriate limits are placed on position sizes, stop loss levels, as well as on market factor sensitivities depending on the size and complexity of trading strategies involved. A comprehensive risk reporting framework is in place whereby, positions are monitored daily against the established limits and monitoring reports are circulated to the Market Risk Management and the respective Business Heads. In case of a limit exception, corrective action is taken in line with the Market Risk Framework or the concerned trading desk's limits mandate.

Each trading desk has a 'permitted product list' comprising of products and structures which have been determined to be appropriate for the TCM desk to trade. Any addition to this list is made after approval from Head of TCM, Head of Market Risk and Chief Risk Officer who assess the risks associated with the product and verify that they can be controlled effectively prior to approving the product.

43 Risk management (continued)

Market risk management (continued)

The bank uses Value at Risk (VaR) methodology as its core analytical tool to assess risks across proprietary trading desks. VaR is an estimate of the potential losses arising in a portfolio over a specified time horizon due to adverse changes in underlying market factors. The Bank calculates its one-day VaR at a 99% confidence interval mainly using Monte Carlo Simulations approach across its trading portfolio and open FX position. VaR results are highly dependent on assumptions around input variables used in the model and also VaR does not provide the 'worst case' possible loss.

Being a statistical technique, VaR is known to have limitations and therefore its interpretation needs to be further supplemented by other limits, sensitivity triggers or stress tests. Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

As of 31 December 2021 the 99% 1-day VaR was estimated at USD 1.62 million (31 December 2020: USD 1.76 million) for the bank wide market risk positions (stemming mainly from proprietary trading in interest rates products, equities and FX net open position). The bank's VaR model considers FX risk in all currencies, including GCC pegged currencies except USD and AED.

There has been no significant change to the Group's exposure to market risks or the way these risks are managed and measured.

a. Counterparty Credit Risk

Counterparty Credit Risk is one of the most significant risks in OTC derivatives trading and securities financing transaction (SFTs) related activities. These risks are further sub categorized into two forms:

Pre-Settlement Risk

Counterparty credit risk is defined as the risk attributable to the downgrading and/or insolvency of a counterparty on its obligations prior to the final settlement of the transaction's cash flow. Internally the Group manages and monitors the exposure to this risk by defining controls and limits around a 'peak future exposure' (PFE) measure and in many cases by collateralizing facilities under Credit Support Annex (CSA). PFE is an estimate of the amount, at a 95 % confidence level, a counterparty may owe over the life of a derivative transaction (or portfolio of transactions).

43 Risk management (continued)

Market risk management (continued)

The Group further measures a net Credit Value Adjustment (CVA) on all outstanding OTC derivative contracts to account for market value of 'credit risk' due to any failure to perform on contractual agreements by a counterparty. CVA is a function of our expected exposure to counterparts, probability of default and recovery rates. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit losses.

Settlement Risk
Settlement Risk arises when a bank, exchanges securities or cash payments to a counterparty on a value date and is unable to verify that payment or securities have been received in exchange until after it has paid or delivered its side of the transaction. The bank manages this exposure by dealing preferentially on a DvP/PvP basis or by defining control mechanism around settlement limits at a counterparty level.

Libor transition

The Group is actively preparing for the transition to Alternative Reference Rates (ARR) under the supervision of a cross-functional working committee, which includes representatives from Risk, Finance, Technology, Legal, Marketing and relevant business units. The transition of LIBOR increases the execution and operational risk of the Group and the plan implemented by the Group for the transition reflects the risks associated. An external consultancy has been onboarded and the best recommended practices from ARR Working Groups in USA and UK are being implemented, as relevant to the Group.

The Group has conducted an impact assessment across operational, financial, and legal dimensions. The transition mechanism for all LIBOR-linked assets and liabilities has been established and necessary changes are being implemented: systems and processes have been updated, appropriate fallback provisions has been incorporated in LIBOR-linked contracts and internal and external LIBOR transition awareness programs have been introduced. The process of negotiation of revised impacted contracts with clients is underway.

43 Risk management (continued)

Libor transition (continued)

The Group intends to use the following ARR for its floating rate assets and liabilities:

LIBOR	Tenor	Alternative Reference Rate	Effective date	
			Existing contracts	New contracts
USD LIBOR	ON, 1M, 3M, 6M, 12M	SOFR	1 July 2023	1 January 2022
USD LIBOR	1W, 2M	SOFR	1 January 2022	1 January 2022
EUR LIBOR	All	ESTR	1 January 2022	1 January 2022
GBP LIBOR	All	SONIA	1 January 2022	1 January 2022
CHF LIBOR	All	SARON	1 January 2022	1 January 2022
JPY LIBOR	All	TONA	1 January 2022	1 January 2022

Necessary systems and process changes have been implemented to facilitate the use of Alternative Reference Rates in client offerings, including the use of simple rate, compounded rate with various options of payment notice conventions (lookback, lockout and payment delay) and credit adjustment spread.

External communication program is in place and impacted clients/counterparties are being contacted for negotiation of the changes to existing contracts as these become due. The external communication program has commenced and will be running until the final publication date of LIBOR on 30 June 2023.

Financial instruments impacted by IBOR reform

The financial crisis of 2008-2009, followed by the reduced activity in LIBOR, indicated that the future of LIBOR was no longer sustainable. In March 2021, the cessation of most LIBOR tenors was confirmed by the FCA (Financial Conduct Authority).

43 Risk management (continued)

Libor transition (continued)

A significant majority of exposures impacted by the LIBOR Transition reference USD LIBOR. These are summarized in the table below. None of these instruments had been transitioned to an Alternative Reference Rate (SOFR) as at 31 December 2021.

	31 December 2021
	AED'000
Non-derivative financial assets	**30,914,338**
Deposits and balances due from banks	4,911,550
Other financial assets measured at fair value	277,224
Other financial assets measured at amortized cost	-
Loans and advances measured at amortized cost	25,535,862
Other assets	189,702
Non-derivative financial liabilities	**2,076,861**
Medium term loans	2,076,861
Derivatives[2]	**30,695,829**
Cross currency swap	1,239,919
Equity swap	278,683
Interest rate swap	29,039,475
Margin	128,555
Total return swap	9,197

As at 31 December 2021, the Group did not hold any off-balance sheet commitments and financial guarantees linked to LIBOR. In addition, as at 31 December 2021 the Group did not have significant exposure to non-USD LIBOR-linked financial instruments. All such exposures will either be transitioned to ARR or will be closed by 1 January 2022.

Hedge accounting

As at 31 December 2021 and 2020, the Group did not hold any LIBOR-linked hedging instruments.

[2] Represents 'Notional' value of derivative contracts

43 Risk management (continued)

Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial assets and liabilities to different extents. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities repricing at different times.

The Group uses simulation-modelling tools to measure and monitor interest rate sensitivity. The results are analysed and monitored by the Assets and Liabilities Committee ("ALCO"). Since majority of the Group's assets are floating rate, deposits and loans generally are repriced within a short period of each other providing a natural hedge, which reduces interest rate risk exposure. Moreover, the majority of the Group's assets and liabilities reprice within one year, thereby further limiting interest rate risk. The Group also has a significant current and savings account balances in deposits which are largely interest free.

The impact of 50 basis points sudden movement in benchmark interest rate on net interest income over a 12 months period as at 31 December 2021 would be a decrease in net interest income by -3.5% (in case of decrease of interest rates) and would have been an increase in net interest income by 6.6% (in case of increase of interest rates) [31 December 2020: -4.0% and +3.5%] respectively.

During the year ended 31 December 2021, the effective interest rate on due from banks and certificates of deposits with central banks was 1.2% (31 December 2020: 1.4%), on loans and advances measured at amortised cost 3.6% (31 December 2020: 3.9%), on customers' deposits 1.0% (31 December 2020: 1.6%) and on due to banks (including repurchase agreements) 0.6% (31 December 2020: 1.1%).

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2021							
Assets							
Cash and balances with central banks	7,831,318	-	-	-	-	9,676,433	17,507,751
Deposits and balances due from banks	15,576,629	6,116,818	3,778,812	621,417	-	2,711,419	28,805,095
Other financial assets measured at fair value	3,636,168	1,327,272	4,578,534	653,687	4,722,342	1,523,120	16,441,123
Other financial assets measured at amortised cost	1,820,947	538,198	1,114,614	3,409,710	3,394,355	-	10,277,824
Loans and advances measured at amortised cost	51,737,556	4,031,722	1,732,799	2,684,262	5,135,684	1,110,547	66,432,570
Islamic financing and investment products measured at amortised cost	9,716,335	697,368	217,238	681,314	2,173,775	1,567,424	15,053,454
Acceptances	-	-	-	-	-	14,340,671	14,340,671
Other assets	-	-	-	-	-	3,290,085	3,290,085
Reinsurance contract assets	-	-	-	-	-	2,699,966	2,699,966
Investment in associate	-	-	-	-	-	34,809	34,809
Investment properties	-	-	-	-	-	462,829	462,829
Property and equipment	-	-	-	-	-	1,426,096	1,426,096
Intangible assets	-	-	-	-	-	281,336	281,336
Total assets	90,318,953	12,711,378	11,421,997	8,050,390	15,426,156	39,124,735	177,053,609

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2021	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	6,488,833	1,502,705	2,143,798	3,000	-	9,428,150	19,566,486
Repurchase agreements with banks	1,418,214	26,510	782,459	501,964	-	-	2,729,147
Customers' deposits	23,646,224	7,181,847	8,953,601	2,109,895	278,037	44,981,298	87,150,902
Islamic customers' deposits	2,328,279	4,474,283	4,264,002	27,402	-	3,238,121	14,332,087
Acceptances						14,340,671	14,340,671
Other liabilities	-	-	-	-	-	6,028,308	6,028,308
Medium-term loans	472,660	80,806	1,054,812	5,140,175	40,906	525,760	7,315,119
Insurance contract liabilities	-	-	-	-	-	4,566,602	4,566,602
Equity attributable to shareholders of the Parent	-	-	-	-	-	20,228,225	20,228,225
Non-controlling interest	-	-	-	-	-	796,062	796,062
Total liabilities and equity	34,354,210	13,266,151	17,198,672	7,782,436	318,943	104,133,197	177,053,609
On balance sheet gap	54,089,042	(554,773)	(5,776,675)	267,954	15,107,282	(63,132,830)	-
Off balance sheet gap	(26,180)	-	26,180	-	-	-	-
Cumulative interest rate sensitivity gap	54,062,862	53,508,090	47,757,594	48,025,548	63,132,830	-	-

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2020							
Assets							
Cash and balances with central banks	8,392,028	2,000,000	2,000,000	-	-	5,549,913	17,941,941
Deposits and balances due from banks	16,228,495	4,158,303	3,804,056	389,681	138,967	3,519,528	28,239,030
Other financial assets measured at fair value	581,385	37,170	2,547,845	937,238	3,190,815	1,144,650	8,439,103
Other financial assets measured at amortised cost	411,012	1,218,138	2,397,772	3,627,965	3,345,767	-	11,000,654
Loans and advances measured at amortised cost	44,590,992	2,244,840	1,873,136	3,433,364	3,919,763	1,224,316	57,286,411
Islamic financing and investment products measured at amortised cost	11,757,598	233,106	169,835	438,141	1,091,407	556,256	14,246,343
Acceptances	-	-	-	-	-	12,767,461	12,767,461
Other assets	-	-	-	-	-	3,478,455	3,478,455
Reinsurance contract assets	-	-	-	-	-	2,891,920	2,891,920
Investment in associate	-	-	-	-	-	20,996	20,996
Investment properties	-	-	-	-	-	449,715	449,715
Property and equipment	-	-	-	-	-	1,466,769	1,466,769
Intangible assets	-	-	-	-	-	294,442	294,442
Total assets	81,961,510	9,891,557	12,792,644	8,826,389	11,686,719	33,364,421	158,523,240

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2020							
Liabilities and equity							
Deposits and balances due to banks	4,963,548	1,994,543	1,782,565	-	-	6,103,724	14,844,380
Repurchase agreements with banks	56,819	25,950	80,273	1,373,681	-	753,000	2,289,723
Customers' deposits	22,251,958	6,771,925	8,094,963	1,911,872	337,025	37,008,230	76,375,973
Islamic customers' deposits	4,307,813	1,800,117	1,344,326	2,090,995	-	2,341,315	11,884,566
Acceptances	-	-	-	-	-	12,767,461	12,767,461
Other liabilities	-	-	-	-	-	5,808,908	5,808,908
Medium-term loans	378,750	1,274,114	603,865	6,799,541	40,088	519,684	9,616,042
Insurance contract liabilities	-	-	-	-	-	4,747,779	4,747,779
Equity attributable to shareholders of the Parent	-	-	-	-	-	19,430,728	19,430,728
Non-controlling interest	-	-	-	-	-	757,680	757,680
Total liabilities and equity	31,958,888	11,866,649	11,905,992	12,176,089	377,113	90,238,509	158,523,240
On balance sheet gap	47,654,324	(1,975,092)	886,653	(3,349,700)	11,309,607	(54,525,792)	-
Off balance sheet gap	(24,013)	24,013	-	-	-	-	-
Cumulative interest rate sensitivity gap	47,630,311	45,679,232	46,565,885	43,216,185	54,525,792	-	-

43 Risk management (continued)

Currency risk management

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored on a regular basis. The Group's exposures on 31 December are as follows:

	31 December 2021			31 December 2020		
	Net spot position AED'000	**Net Forward position AED'000**	**Net Position AED'000**	Net spot position AED'000	Net Forward position AED'000	Net Position AED'000
U.S. Dollars	**8,387,427**	**(11,162,514)**	**(2,775,087)**	5,006,141	(4,498,538)	507,603
Qatari Riyals	**50,218**	**(210,715)**	**(160,497)**	(162,513)	(12,400)	(174,913)
Pound Sterling	**(782,678)**	**793,643**	**10,965**	1,310,671	(1,328,842)	(18,171)
Euro	**(1,393,027)**	**1,418,931**	**25,904**	324,346	(302,379)	21,967
Bahrain Dinar	**507,291**	**(630,199)**	**(122,908)**	159,738	(133,993)	25,745
Saudi Riyal	**(6,342,158)**	**6,293,524**	**(48,634)**	(5,621,881)	5,632,255	10,374
Japanese Yen	**(1,081,437)**	**1,090,335**	**8,898**	(1,259,975)	1,268,436	8,461
Swiss Francs	**533**	**2**	**535**	3,550	(884)	2,666
Kuwaiti Dinar	**(2,533)**	**(180,679)**	**(183,212)**	(142,092)	(38,596)	(180,688)
Chinese Yuan	**(1,363,960)**	**1,427,630**	**63,670**	(1,348,336)	1,351,924	3,588
Other	**319,272**	**118,028**	**437,300**	(173,397)	(62,326)	(235,723)
Total	**(1,701,052)**	**(1,042,014)**	**(2,743,066)**	(1,903,748)	1,874,657	(29,091)

The exchange rate of AED against US Dollar is pegged and the Group's exposure to currency risk is limited to that extent.

Most of the major positions are in currencies that are pegged to the U.S. Dollar; therefore, any change in their exchange rates will have insignificant sensitivity on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

Liquidity risk management

Liquidity risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due.

43 Risk management (continued)

Liquidity risk management (continued)

The Group's senior management's focus on liquidity management is to:

- better understand the various sources of liquidity risk, particularly under stressed conditions;
- ensure the Group's short term and long term resilience, as measured by the Basel III guidelines, is sufficiently robust to meet realistic adverse scenarios;
- develop effective contingency funding plans to deal with liquidity crises;
- develop liquidity risk tolerance levels within the Internal Capital Adequacy Assessment Process (ICAAP) framework; and
- demonstrate that the bank can survive the closure of one or more funding markets by ensuring that funding can be readily raised from a variety of sources.

In compliance with Basel Committee on Banking Supervision ("BCBS") document titled "Principles for Sound Liquidity Management" and CBUAE "Regulations re Liquidity at Banks" (Circular Number 33/2015) and accompanying Guidance Manual, the Group has established a robust liquidity management framework that is well integrated into the bank-wide risk management process. A primary objective of the liquidity management framework is to ensure with a high degree of confidence that the Bank is in a position to both address its daily liquidity obligations and withstand a period of liquidity stress. In addition to maintaining sound liquidity governance and management practices, the Bank also holds an adequate liquidity cushion comprised of High Quality Liquid Assets ("HQLA") to be in a position to survive such periods of liquidity stress. The Bank's Liquidity Management Framework has two tiers:

1. **Board of Directors oversight** through review and approval of Liquidity Management Policy and definition of Liquidity Risk Tolerance Limits

2. **Strategies, policies and practices developed by the ALCO** to manage liquidity risk in accordance with the Board of directors approved risk tolerance and ensure that the bank maintains sufficient liquidity.

The Group's Board of Directors (the "Board") bears the ultimate responsibility for liquidity risk management within the Bank. The Board members hence are familiar with liquidity risk and how it is managed as well as have a thorough understanding of how other risks including credit, market, operational and reputation risks affect the bank's overall liquidity risk strategy.

Mashreqbank's Head Office ("HO") and International Banking Group ("IBG") Asset and Liability Committees ("ALCO") are responsible for formulating policies for implementing the Board approved liquidity risk appetite. In this regard, the following policies, procedures and systems have been implemented:

43 Risk management (continued)

Liquidity risk management (continued)

a) Robust ALCO oversight through timely, pertinent information and analysis

ALCOs have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. ALCOs meet on a regular basis to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio compliance, funding and repricing gaps and general domestic and international economic and financial market conditions. ALCOs determine the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity position at all locations. The Asset Liability Management ("ALM") function in the Group is then responsible for implementing the ALCO policies.

The Head Office ALCO comprises of the Chief Executive Officer, the Head of Corporate Affairs, Chief Risk Officer, Chief Credit Officer, Head of Retail Banking Group, Head of Corporate Banking Group, Head of International Banking Group and the Head of Treasury & Capital Markets.

The IBG ALCO comprises of Head of International Banking, Head of Retail Banking, Chief Risk Officer, Head of Treasury & Capital Markets, Funding Centre, Finance and representatives from respective international locations.

b) Maintenance of Adequate HQLA ("High Quality Liquid Assets") cushion

The Bank holds a portfolio of HQLA aligned with the established liquidity risk tolerance of the bank, which means at a minimum it is sufficient to meet all regulatory and internal ratios under normal operating conditions, and enough to meet the liquidity needs under stressed conditions as estimated by Stress tests.

c) Gap limits

The minimum size of net placements in highly liquid money market instruments and HQLA bond portfolio is based on stress testing exercise, which takes into account the stability of deposits from different sources as well as contingent funding requirements of overseas branches. The Money Book and HQLA deployments are also required to adhere to gap limits, to ensure that the bank is in a position to meet short term and intraday liquidity needs.

d) Liquidity risk management over different time horizons and currencies

The time horizons and activities over which the Bank manages liquidity risk range from intraday basis, day-to-day cashflow movements, fund raising capacity over short and medium-term (up to one year) as well as vulnerabilities to events, activities and strategies beyond one year that can put a significant strain on the Bank's cash generation capability.

43 Risk management (continued)

Liquidity risk management (continued)

e) Forward looking Funding Plan ensuring effective diversification in the sources and tenor of funding

Mashreqbank develops its funding plan as part of its annual planning exercise. The plan places significant emphasis on diversifying the funding sources and maintaining market access to different sources of funding.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, as of 31 December 2021 has an outstanding balance of AED 7.32 billion (31 December 2020: AED 9.62 billion) [Note 19] in medium-term loans. The Bank also established Certificate of Deposit (CD) programmes through its London branch in 2014 and its Hong Kong Branch in 2018.

f) Stress Testing for a variety of short-term and protracted institution-specific and market-wide stress scenarios

Stress tests enable the Bank to analyze the impact of stress scenarios on its consolidated group wise liquidity position as well as on the liquidity position of individual entities. The stress scenarios have been designed to incorporate the major funding and market liquidity risks to which the Bank is exposed. ALCO and the Board reviews the bank's choice of scenarios and related assumptions as well as the results of the stress tests.

g) Contingency Funding Plan outlining the Bank's step by step response to Liquidity contingency situations of different magnitudes

Mashreqbank has a formal contingency funding plan ("CFP"), which is updated, reviewed and approved by the HO ALCO and the Board on an annual basis. The CFP provides a list of liquidity generation tools which would be used to counter liquidity stress at different stages of the contingency.

h) FTP Framework for allocating liquidity costs, benefits and risks to all business activities

Mashreqbank has a well-developed FTP policy and system that aims to create transparency in profitability and insulate Business Units from interest rate risk.

43 Risk management (continued)

Liquidity risk management (continued)

i) Regular Internal as well as CBUAE audits focused on HQLA cushion and Liquidity management policies and procedures

Mashreqbank's liquidity policies, procedures and systems are subject to end to end review by internal audit as well as by the CBUAE.

COVID-19 impact

The effects of the COVID-19 crisis on the economy continue to be felt by the UAE banks. The gradual recovery in the oil prices along with renewed access to the international capital markets by GCC sovereigns and financial institutions however, have eased the concerns regarding GCC Governments' finances and banking sector's liquidity. In this environment, Mashreqbank has taken measures to manage its liquidity carefully. The Bank's ALCO meets regularly with primary focus on monitoring cash flows and forecasts across all jurisdictions in which the Bank operates. The Bank has strengthened its liquidity buffer significantly through raising deposits.

The CBUAE has adopted a proactive approach in order to ensure flow of credit to the economy, especially to sectors severely impacted by the COVID-19 crisis. The CBUAE announced a comprehensive Targeted Economic Support Scheme ("TESS") effective from 15 March 2020, allowing UAE Banks to access zero cost funding and pass on the benefit to their clients through Principal and Interest deferrals. CBUAE also reduced Reserve Requirement against CASA balances, providing an immediate boost to UAE Banks' liquidity. Given the increase in economic activity and stability of the financial system, CBUAE is starting a gradual and well calibrated withdrawal of some of the TESS facilities, which is scheduled to be concluded by mid of 2022.

The combination of above measures by the CBUAE along with prudent liquidity management by the Bank, has helped to ensure that the Bank is able to meet its clients' banking services requirements effectively and without disruption.

43 Risk management (continued)

Liquidity risk management (continued)

The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2021 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	17,507,751	-	-	-	-	17,507,751
Deposits and balances due from banks	15,439,040	5,434,342	5,104,844	2,826,869	-	28,805,095
Other financial assets measured at fair value	4,240,414	1,367,214	4,607,737	653,687	5,572,071	16,441,123
Other financial assets measured at amortised cost	1,839,475	538,146	1,114,300	3,408,507	3,377,396	10,277,824
Loans and advances measured at amortised cost	19,994,724	5,047,357	3,746,344	18,142,111	19,502,034	66,432,570
Islamic financing and investment products measured at amortised cost	7,086,840	663,087	463,508	2,025,467	4,814,552	15,053,454
Acceptances	3,847,093	4,528,949	5,831,140	133,489	-	14,340,671
Other assets	2,525,122	194,799	359,255	78,028	132,881	3,290,085
Reinsurance contract assets	781,827	517,302	595,935	784,907	19,995	2,699,966
Investment in associate	-	-	-	-	34,809	34,809
Investment properties	-	-	-	-	462,829	462,829
Property and equipment	-	-	-	-	1,426,096	1,426,096
Intangible assets	-	-	-	-	281,336	281,336
Total assets	73,262,286	18,291,196	21,823,063	28,053,065	35,623,999	177,053,609

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	15,978,784	1,440,904	2,143,798	3,000	-	19,566,486
Repurchase agreements with banks	1,418,213	26,510	782,459	501,965	-	2,729,147
Customers' deposits	69,069,399	6,962,385	8,839,799	2,003,605	275,714	87,150,902
Islamic customers' deposits	5,566,381	4,474,303	4,264,002	27,401	-	14,332,087
Acceptances	3,847,093	4,528,949	5,831,140	133,489	-	14,340,671
Other liabilities	4,831,789	236,957	576,549	268,974	114,039	6,028,308
Medium-term loans	457,792	80,806	1,542,065	5,193,550	40,906	7,315,119
Insurance contract liabilities	1,405,261	804,938	870,607	1,081,089	404,707	4,566,602
Equity attributable to shareholders of the Parent	-	-	-	-	20,228,225	20,228,225
Non-controlling interest	-	-	-	-	796,062	796,062
Total liabilities and equity	102,574,712	18,555,752	24,850,419	9,213,073	21,859,653	177,053,609
Guarantees	9,102,914	2,854,797	4,966,230	6,368,103	10,414,471	33,706,515
Letters of credit	10,322,318	1,196,716	3,659,300	607,451	-	15,785,785
Total	19,425,232	4,051,513	8,625,530	6,975,554	10,414,471	49,492,300

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2020 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	13,941,941	2,000,000	2,000,000	-	-	17,941,941
Deposits and balances due from banks	18,949,322	3,467,761	4,951,682	870,265	-	28,239,030
Other financial assets measured at fair value	1,153,708	37,170	2,547,845	937,238	3,763,142	8,439,103
Other financial assets measured at amortised cost	411,012	1,233,765	2,396,924	3,626,681	3,332,272	11,000,654
Loans and advances measured at amortised cost	18,822,621	4,143,633	4,078,018	15,692,258	14,549,881	57,286,411
Islamic financing and investment products measured at amortised cost	5,932,170	1,314,330	400,708	2,588,022	4,011,113	14,246,343
Acceptances	2,816,593	3,876,726	5,768,024	306,118	-	12,767,461
Other assets	2,039,170	250,057	864,649	137,428	187,151	3,478,455
Reinsurance contract assets	795,598	502,291	583,966	965,161	44,904	2,891,920
Investment in associate	-	-	-	-	20,996	20,996
Investment properties	-	-	-	-	449,715	449,715
Property and equipment	-	-	-	-	1,466,769	1,466,769
Intangible assets	-	-	-	-	294,442	294,442
Total assets	64,862,135	16,825,733	23,591,816	25,123,171	28,120,385	158,523,240

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	11,067,272	1,994,544	1,782,564	-	-	14,844,380
Repurchase agreements with banks	809,819	25,950	80,273	1,373,681	-	2,289,723
Customers' deposits	59,164,753	6,895,909	8,028,747	1,930,771	355,793	76,375,973
Islamic customers' deposits	6,609,923	1,800,117	1,383,530	2,090,996	-	11,884,566
Acceptances	2,816,593	3,876,726	5,768,024	306,118	-	12,767,461
Other liabilities	4,273,745	350,012	696,971	357,251	130,929	5,808,908
Medium-term loans	347,374	1,274,114	603,865	7,350,602	40,087	9,616,042
Insurance contract liabilities	1,424,304	787,458	826,343	1,270,167	439,507	4,747,779
Equity attributable to shareholders of the Parent	-	-	-	-	19,430,728	19,430,728
Non-controlling interest	-	-	-	-	757,680	757,680
Total liabilities and equity	86,513,783	17,004,830	19,170,317	14,679,586	21,154,724	158,523,240
Guarantees	7,379,488	2,384,489	7,274,352	10,154,237	13,077,681	40,270,247
Letters of credit	5,395,946	1,835,813	1,452,649	551,193	-	9,235,601
Total	12,775,434	4,220,302	8,727,001	10,705,430	13,077,681	49,505,848

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligations as at 31 December 2021.

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	15,978,784	1,440,904	2,143,798	3,000	-	19,566,486
Repurchase agreements with banks	1,418,213	26,510	782,459	501,965	-	2,729,147
Customers' deposits	69,087,463	7,001,277	8,942,058	2,416,153	290,812	87,737,763
Islamic customers' deposits	5,573,160	4,532,835	4,490,105	28,042	-	14,624,142
Acceptances	3,847,093	4,528,949	5,831,140	133,489	-	14,340,671
Other liabilities	4,831,789	236,957	576,549	268,975	114,038	6,028,308
Medium-term loans	459,999	80,838	1,550,939	5,262,919	41,606	7,396,301
Insurance contract liabilities	1,405,261	804,938	870,607	1,081,089	404,707	4,566,602
Equity attributable to shareholders of the Parent	-	-	-	-	20,228,225	20,228,225
Non-controlling interest	-	-	-	-	796,062	796,062
Total liabilities and equity	102,601,762	18,653,208	25,187,655	9,695,632	21,875,450	178,013,707

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligations as at 31 December 2020.

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	11,067,272	1,994,544	1,782,564	-	-	14,844,380
Repurchase agreements with banks	809,819	25,950	80,273	1,373,681	-	2,289,723
Customers' deposits	59,267,776	6,953,113	8,092,559	2,478,748	369,086	77,161,282
Islamic customers' deposits	6,704,920	1,921,464	1,508,680	2,094,491	-	12,229,555
Acceptances	2,816,593	3,876,726	5,768,024	306,118	-	12,767,461
Other liabilities	3,636,540	350,012	696,971	357,251	130,929	5,171,703
Medium-term loans	348,671	1,280,771	681,984	7,355,207	40,088	9,706,721
Insurance contract liabilities	1,424,304	787,458	826,343	1,270,167	439,507	4,747,779
Equity attributable to shareholders of the Parent	-	-	-	-	19,430,728	19,430,728
Non-controlling interest	-	-	-	-	757,680	757,680
Total liabilities and equity	86,075,895	17,190,038	19,437,398	15,235,663	21,168,018	159,107,012

43 Risk management (continued)

Insurance Risk

The Group has a robust process for managing risks in accordance with the groupwide risk appetite. Enterprise Risk Management (ERM) department supervises the Executive Risk Committee and the Risk Management Framework. The Executive Risk Committee is deliberately designed to be a second line of defense body but composed of members who are also in a position to take immediate executive actions to address risk issues. The Executive Risk Committee convenes at least on a quarterly basis. The Group has an ongoing commitment to maintain an effective risk culture, as it is critical to the Group's success in maintaining and developing an effective risk management system. Accountabilities for the implementation and oversight of particular risk are aligned with individual executives. The risk owners are responsible for ensuring that the proper level of review and confirmation of the risk and control ratings/evaluations have been undertaken. The Group assess the exposure to climate changes risk by implementing scenario analysis and stress testing based on outcome of the modeling of natural catastrophic events exposure and by reviewing an impact on group's profitability and solvency. The scenarios analysis covers different lines of businesses, countries, perils and return data. Overall, the outcome shows that the Group is well capitalized to reasonably absorb most of the shocks from the various scenarios included into the stress test.

The Executive Committee oversees the management of insurance risks through its Risk Committee, Reinsurance Committee, Reserve Committee, Large and strategic accounts Forum and Audit Committee. Each of these committees has a distinct role to play within the risk governance framework.

Insurance risk is the risk arising from the uncertainty around the actual experience and/or policyholder behavior being materially different than expected at the inception of an insurance contract. These uncertainties include the amount and timing of cash flows from premiums, commissions, expenses, claims and claim settlement expenses paid or received under a contract.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

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 nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

43 Risk management (continued)

Insurance Risk (continued)

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Group manages 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.

The distribution of insurance contract liabilities and reinsurance contract assets as at 31 December 2021 and 31 December 2020 is as follows:

	2021	2020
	AED'000	AED'000
Insurance contract liabilities		
UAE	**4,210,037**	4,382,374
Other GCC and Middle East countries	**356,565**	365,405
	4,566,602	4,747,779
Reinsurance contract assets		
UAE	**2,438,103**	2,623,959
Other GCC and Middle East countries	**261,863**	267,961
	2,699,966	2,891,920

Frequency and Severity of Claims

The Group has the right not to renew individual policies, to re-price the risk, to impose deductibles and to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Group's strategy limits the total exposure to any one territory and the exposure to any one industry.

43 Risk management (continued)

Insurance Risk (continued)

Sources of Uncertainty in the Estimation of Future Claim Payments

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. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established. The amount of insurance claims is in certain cases sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.
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.

Assuming all the other factors remained constant; an impact of an increase / decrease of 1% in claims will result in corresponding increase/ decrease in net claims incurred by AED 15.5 million (2020: AED 16 million).

COVID-19 impact on insurance subsidiary of the Group

The Bank's insurance subsidiary ("subsidiary") assessed the impact of Covid-19 on business continuity, claims and reserving, control environment, credit risk, fair value of investment properties (refer to Note 11), impairment of financial investments measured at amortised cost, liquidity and solvency as explained below.

The subsidiary has enabled remote connectivity for 95% of its employees as part of its business continuity management initiative to ensure that there is no interruption to client servicing and operations. This has resulted in the subsidiary delivering service level commitments to its customers across multiple lines of business.

The subsidiary mainly noticed an increase in Health Care claims and Business Interruption claims due to COVID-19. The subsidiary is monitoring the loss experience and has appropriately enhanced its technical reserves as at 31 December 2021. The impact on life insurance was minimal as of the year end.

43 Risk management (continued)

Insurance Risk (continued)

COVID-19 impact on insurance subsidiary of the Group

Since 2019, the subsidiary has developed a robust risk appetite framework and capital thresholds based on the pandemic risk and other risks stress scenarios. The Group updated the stress scenarios for the year ended 31 December 2021. Having considered the impact of COVID-19, the subsidiary conducts more regular reviews on its reinsurers in relation to the counterparty credit ratings, financial metrics, credit outlook and changes to their structures, if any. Also, the subsidiary has updated its reinsurer security list in order to address the impact of COVID-19. The current security list has more than 90% of “A” rated reinsurance securities.

In parallel, the subsidiary continues to have a robust collection and credit control process. Further the subsidiary’s continuous adoption of automation led enhancements and developments to strengthen the processes and credit controls have resulted in an efficient receivable management. Hence, despite the uncertain economic conditions, the subsidiary continued to have robust collections during the year ended 31 December 2021. The measures taken have contributed to controlled and healthy receivable book during the year ended 31 December 2021.

Similarly, the subsidiary’s investment portfolio measured at amortised cost has been assessed using a robust ECL model with updated inputs as of the reporting date and based on the results, the Group had taken adequate provisions for impairment losses.

The subsidiary assessed the unquoted equity investments portfolio against the latest available inputs. Accordingly, the subsidiary believes that the fair values reported for unquoted equity investments reflect the current market conditions as of 31 December 2021.

The liquidity position of the subsidiary remains strong. Furthermore, the subsidiary has carried out stress testing to assess the resilience of its solvency compliance, which also remains strong after considering the impact of the shocks. As the situation continues to develop, the subsidiary will continue to monitor the situation closely and take the necessary actions.

43 Risk management (continued)

Compliance Risk

Compliance risk is the risk of an activity not being conducted in line with the applicable laws and regulations leading to reputational and/or financial losses. The Group manages compliance risk through a compliance function which is responsible for monitoring compliance of laws and regulations across the various jurisdictions in which the Group operates.

In 2015, the Bank became aware that certain historical US dollar payment processing activities involving Sudan may have potentially breached US sanction laws in effect at the time. The Bank proactively cooperated with the UAE and the US regulators and appointed external legal advisors to assist in the review of these transactions, which occurred prior to March 2009, including compliance with US sanction laws as well as its own compliance processes. In 2018, the Bank formally submitted the findings of the review to the regulators in both the UAE and the US.

Certain US agencies and regulators concluded their reviews without levying any penalties. During the year ended 31 December 2021 the Bank reached a settlement with the Office of Foreign Assets Control (OFAC), the New York State Department of Financial Services (DFS) and the Federal Reserve Board of Governors (FRB). As part of the settlement the Bank agreed to pay $100 million to the DFS which is fully provided for in these consolidated financial statements.

Dialogue with a US agency on the same matter is ongoing and, based on legal advice, it is premature at this stage to determine if the Bank is likely to be subject to any further penalty or the quantum of the penalty. The Group, on a continuous basis, identifies and assesses such risks and recognizes provisions, in consultation with its legal counsel, in accordance with the accounting policy for provisions as disclosed in note 3.

43 Risk management (continued)

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2020.

Fair value of the Group's financial assets that are measured at fair value on recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined:

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at 2021 AED'000	Fair value as at 2020 AED'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Other financial assets measured at FVTPL						
Quoted debt investments	**257,064**	19,431	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	**37,668**	6,719	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**1,291,065**	796,240	Level 2	Based on the recent similar transaction in market	None	Not Applicable
Mutual and other funds	**686,534**	629,865	Level 2	Quoted prices in secondary market.	None	Not Applicable
Unquoted equity investments	**1,113**	1,112	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	2,273,444	1,453,367				

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	2021	2020				
	AED'000	AED'000				
Other financial assets measured at FVTOCI						
Quoted equity investments	**577,857**	459,821	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**559,930**	560,592	Level 3	Based on the recent similar transaction in market	None	Not Applicable
Quoted debt investments	**12,920,789**	5,910,374	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	**53,589**	54,949	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
Mutual and other funds	**55,514**	-	Level 2	Quoted prices in secondary market.	None	Not Applicable
	14,167,679	6,985,736				
	16,441,123	8,439,103				

43 Risk management (continued)

Fair value measurements (continued)

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

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 FVTPL

	2021 AED'000	2020 AED'000
At 1 January	**1,112**	245
Purchases	**-**	2,505
Disposals	**-**	(1,646)
Change in fair value	**1**	8
At 31 December	**1,113**	1,112

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTOCI

	2021 AED'000	2020 AED'000
At 1 January	**615,541**	625,286
Purchases	**7,933**	-
Disposals/matured	**(1,118)**	(10,215)
Change in fair value	**(8,837)**	470
At 31 December	**613,519**	615,541

All gain and losses included in consolidated statement of comprehensive income relate to unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

43 Risk management (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values as these are substantially short term in nature and carry market rates of interest.

	Carrying amount	Fair value Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2021					
Financial assets:					
Other financial assets measured at amortised cost	**10,302,332**	**7,142,239**	**1,944,036**	**1,385,285**	**10,471,560**
31 December 2020					
Financial assets:					
Other financial assets measured at amortised cost	11,000,654	7,600,395	1,556,552	2,169,181	11,326,128

	Carrying Amount	Fair value Level 1	Level 2	Level 3	Total
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2021					
Financial liabilities					
Medium-term notes	**7,315,119**	**5,259,890**	**-**	**2,070,100**	**7,329,990**
31 December 2020					
Financial liabilities					
Medium-term notes	9,616,042	5,558,668	-	4,133,034	9,691,702

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 1% increase or decrease as at 31 December 2021 and 31 December 2020:

	Reflected in consolidated statement of profit or loss		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
31 December 2021				
Other financial assets measured at fair value	**22,734**	**(22,734)**	**141,677**	**(141,677)**
Derivatives	**6**	**(6)**	**585**	**(585)**
31 December 2020				
Other financial assets measured at fair value	14,534	(14,534)	69,857	(69,857)
Derivatives	1,560	(1,560)	636	(636)

Majority of the derivative financial instruments are back-to-back; therefore, any change to the fair value of the derivatives resulting from price input changes will have insignificant impact on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

44 Foreign restricted assets

Net assets equivalent to AED 218 million as at 31 December 2021 (31 December 2020: AED 213 million) maintained by certain branches of the Bank, operating outside the UAE, are subject to exchange control regulations of the countries in which these branches operate.

45 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2021.

46 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2021 were approved by the Board of Directors and authorised for issue on 31 January 2022.


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CONSOLIDATED
FINANCIAL
STATEMENTS

Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2020

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Board of Directors' report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2020.

Incorporation and registered offices

Mashreqbank PSC was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The address of the registered office is P.O. Box 1250, Dubai, United Arab Emirates.

Principal activities

The principal activities of the Bank are retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management. These activities are carried out through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

Financial position and results

The financial position and results of the Group for the year ended 31 December 2020 are set out in the accompanying consolidated financial statements.

Dividend

The Board of Directors do not propose any cash dividend for the year ended 31 December 2020.

Directors

The following are the Directors of the Bank as at 31 December 2020

Chairman:	H.E. Abdul Aziz Abdulla Al Ghurair
Vice Chairman:	Ali Rashed Ahmad Lootah
Directors:	Abdulla Bin Ahmad Al Ghurair
	Rashed Saif Saeed Al Jarwan Al Shamsi
	Mohammed Saif Ahmed Al Ghurair
	Rashed Saif Ahmed Al Ghurair
	Sultan Abdulla Ahmed Al Ghurair

Auditors

The consolidated financial statements for the year ended 31 December 2020 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors

H.E. Abdul Aziz Abdulla Al Ghurair
Chairman
10 February 2021

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Independent auditor's report to the shareholders of Mashreqbank PSC Group

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 Mashreqbank PSC (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2020, 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 2020;
- 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.

PricewaterhouseCoopers (Dubai Branch), License no. 102451
Emaar Square, Building 5, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

Mohamed ElBorno, Jacques Fakhoury, Douglas O'Mahony and Rami Sarhan are registered as practising auditors with the UAE Ministry of Economy

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Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Our audit approach

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.

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses The Group applies Expected Credit Losses (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 computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2020: ➢ 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. ➢ 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. The appropriateness of the model methodology was assessed, giving specific consideration to COVID-19 and the judgement overlay. ● Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.

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Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Our audit approach (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 collateral. The Group's impairment policy under IFRS 9 is presented in Note 3.14 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 which have significantly increased as a result of Covid-19, affecting the staging criteria applied to the financial assets as well as in developing ECL models and assumptions for calculating its impairment provisions.	• For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral. ➢ In addition, for the Stage 3 corporate 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 file. For the Stage 3 retail portfolio, assumptions were independently assessed for each product category and an independent view was formed on the levels of provisions recognised. ➢ We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9 and the disclosures made relating to the impact of COVID-19 on ECL.

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Other information

The directors are responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Chairman's Report, Corporate Governance Report and Financial Highlights, which are 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 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 Chairman's Report, Corporate Governance Report and Financial Highlights, 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, 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 Mashreqbank PSC Group (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.

Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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.

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that for the year ended 31 December 2020:

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Group has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the books of account of the Group;
- note 7 to the consolidated financial statements discloses the shares purchased by the Group during the financial year ended 31 December 2020;
- note 37 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

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Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Report on other legal and regulatory requirements (continued)

- Note 32 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2020; and
- 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 financial year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015, or in respect of the Bank, it's Articles of Association, which would materially affect its activities or its financial position as at 31 December 2020.

Further, as required by 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
10 February 2021

Douglas O'Mahony
Registered Auditor Number 834
Place: Dubai, United Arab Emirates

Mashreqbank PSC Group

Consolidated statement of financial position

		As at 31 December			
		2020		2019	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	**17,941,941**	**4,884,819**	20,939,700	5,700,980
Deposits and balances due from banks	6	**28,239,030**	**7,688,274**	26,565,848	7,232,738
Other financial assets measured at fair value	7	**8,439,103**	**2,297,605**	4,522,166	1,231,191
Other financial assets measured at amortised cost	7	**11,000,654**	**2,995,005**	10,875,153	2,960,837
Loans and advances measured at amortised cost	8	**57,286,411**	**15,596,627**	61,710,277	16,801,056
Islamic financing and investment products measured at amortised cost	9	**14,246,343**	**3,878,667**	14,456,757	3,935,953
Acceptances		**12,767,461**	**3,476,031**	12,903,083	3,512,955
Other assets	10	**3,478,455**	**947,035**	2,738,265	745,512
Reinsurance contract assets	20	**2,891,920**	**787,345**	2,585,918	704,034
Investment in associate		**20,996**	**5,716**	29,355	7,992
Investment properties	11	**449,715**	**122,438**	473,591	128,938
Property and equipment	12	**1,466,769**	**399,338**	1,367,993	372,446
Intangible assets	13	**294,442**	**80,164**	262,877	71,571
Total assets		**158,523,240**	**43,159,064**	159,430,983	43,406,203
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	14	**14,844,380**	**4,041,487**	11,184,496	3,045,057
Repurchase agreements with banks	15	**2,289,723**	**623,393**	1,088,537	296,362
Customers' deposits	16	**76,375,973**	**20,793,894**	76,439,572	20,811,209
Islamic customers' deposits	17	**11,884,566**	**3,235,656**	14,529,261	3,955,693
Acceptances		**12,767,461**	**3,476,031**	12,903,083	3,512,955
Other liabilities	18	**5,808,908**	**1,581,516**	4,950,558	1,347,824
Medium-term loans	19	**9,616,042**	**2,618,035**	11,838,757	3,223,185
Insurance contract liabilities	20	**4,747,779**	**1,292,616**	4,253,789	1,158,124
Total liabilities		**138,334,832**	**37,662,628**	137,188,053	37,350,409
EQUITY					
Capital and reserves					
Issued and paid up capital	21(a)	**1,775,308**	**483,340**	1,775,308	483,340
Statutory and legal reserves	21(b)	**912,099**	**248,325**	907,714	247,132
General reserve	21(c)	**312,000**	**84,944**	312,000	84,944
Currency translation reserve	21(d)	**(98,332)**	**(26,771)**	(88,720)	(24,155)
Investments revaluation reserve	21(e)	**(358,088)**	**(97,492)**	(273,595)	(74,488)
Cash flow hedge reserve	21(f)	**(437)**	**(119)**	4,292	1,168
Retained earnings		**16,888,178**	**4,597,925**	18,895,583	5,144,455
Equity attributable to owners of the Parent		**19,430,728**	**5,290,152**	21,532,582	5,862,396
Non-controlling interests	22	**757,680**	**206,284**	710,348	193,398
Total equity		**20,188,408**	**5,496,436**	22,242,930	6,055,794
Total liabilities and equity		**158,523,240**	**43,159,064**	159,430,983	43,406,203

To the best of our knowledge, the consolidated financial statements present fairly in all material respects the financial condition, results of operation and cashflows of the Group as of, and for, the periods presented therein.

Abdul Aziz Abdulla Al Ghurair
Chairman

Ahmed Abdelaal
Group Chief Executive Officer

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

Mashreqbank PSC Group

Consolidated statement of profit or loss

		For the year ended 31 December			
		2020		2019	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Interest income	24	**4,514,924**	**1,229,220**	5,881,414	1,601,256
Income from Islamic financing and investment products	25	**543,477**	**147,965**	753,645	205,185
Total interest income and income from Islamic financing and investment products		**5,058,401**	**1,377,185**	6,635,059	1,806,441
Interest expense	26	**(2,110,697)**	**(574,652)**	(2,617,855)	(712,729)
Distribution to depositors – Islamic products	27	**(271,404)**	**(73,892)**	(310,048)	(84,413)
Net interest income and income from Islamic products net of distribution to depositors		**2,676,300**	**728,641**	3,707,156	1,009,299
Fee and commission income	28	**2,642,536**	**719,449**	2,903,706	790,554
Fee and commission expenses	28	**(1,423,024)**	**(387,428)**	(1,538,219)	(418,791)
Net fee and commission income		**1,219,512**	**332,021**	1,365,487	371,763
Net investment income	29	**321,380**	**87,498**	149,778	40,778
Other income, net	30	**931,072**	**253,491**	771,775	210,121
Operating income		**5,148,264**	**1,401,651**	5,994,196	1,631,961
General and administrative expenses	32	**(2,944,856)**	**(801,758)**	(2,623,103)	(714,158)
Operating profit before impairment		**2,203,408**	**599,893**	3,371,093	917,803
Allowances for impairment, net	31	**(3,356,819)**	**(913,918)**	(1,212,187)	(330,026)
(Loss) / profit before tax		**(1,153,411)**	**(314,025)**	2,158,906	587,777
Tax expense		**(51,840)**	**(14,114)**	(22,764)	(6,198)
(Loss) / profit for the year		**(1,205,251)**	**(328,139)**	2,136,142	581,579
Attributable to:					
Owners of the Parent		**(1,277,826)**	**(347,897)**	2,065,194	562,264
Non-controlling interests		**72,575**	**19,758**	70,948	19,315
		(1,205,251)	**(328,139)**	2,136,142	581,579
(Loss) / earnings per share	33	**AED (7.20)**	**USD (1.96)**	AED 11.63	USD 3.17

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

Mashreqbank PSC Group

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2020		2019	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
(Loss) / profit for the year	**(1,205,251)**	**(328,139)**	2,136,142	581,579
Other comprehensive (loss) / income				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments) [Note 7(k)]	**(30,966)**	**(8,431)**	65,529	17,841
Items that may be reclassified subsequently to profit or loss:				
Changes in currency translation reserve	**(13,072)**	**(3,559)**	(5,917)	(1,611)
Changes in fair value of financial assets measured at fair value through other comprehensive income (debt instruments) [Note 7(k)]	**(73,325)**	**(19,963)**	(8,061)	(2,195)
Gain / (loss) on hedging instruments designated as hedges of net investment in foreign operations	**716**	**196**	(2,759)	(751)
Cash flow hedges - fair value (loss) / gain arising during the year [Note 21(f)]	**(4,729)**	**(1,288)**	8,416	2,291
Total other comprehensive (loss) / income for the year	**(121,376)**	**(33,045)**	57,208	15,575
Total comprehensive (loss) / income for the year	**(1,326,627)**	**(361,184)**	2,193,350	597,154
Attributable to:				
Owners of the Parent	**(1,391,731)**	**(378,909)**	2,104,538	572,974
Non-controlling interests	**65,104**	**17,725**	88,812	24,180
	(1,326,627)	**(361,184)**	2,193,350	597,154

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

Mashreqbank PSC Group

Consolidated statement of changes in equity

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cash flow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,481,156	20,144,104	621,585	20,765,689
Changes on initial application of IFRS 16	-	-	-	-	-	-	(5,937)	(5,937)	(49)	(5,986)
Restated balances as at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,475,219	20,138,167	621,536	20,759,703
Profit for the year ended 31 December 2019	-	-	-	-	-	-	2,065,194	2,065,194	70,948	2,136,142
Other comprehensive loss for the year	-	-	-	(7,340)	38,268	8,416	-	39,344	17,864	57,208
Total comprehensive income/(loss) for the year	-	-	-	(7,340)	38,268	8,416	2,065,194	2,104,538	88,812	2,193,350
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	(69,130)	-	69,130	-	-	-
Transfer to statutory and legal reserves	-	3,837	-	-	-	-	(3,837)	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710,123)	(710,123)	-	(710,123)
Balance at 31 December 2019	**1,775,308**	**907,714**	**312,000**	**(88,720)**	**(273,595)**	**4,292**	**18,895,583**	**21,532,582**	**710,348**	**22,242,930**
(Loss) / profit for the year ended 31 December 2020	-	-	-	-	-	-	**(1,277,826)**	**(1,277,826)**	**72,575**	**(1,205,251)**
Other comprehensive loss for the year	-	-	-	**(9,612)**	**(99,564)**	**(4,729)**	-	**(113,905)**	**(7,471)**	**(121,376)**
Total comprehensive (loss) / income for the year	-	-	-	**(9,612)**	**(99,564)**	**(4,729)**	**(1,277,826)**	**(1,391,731)**	**65,104**	**(1,326,627)**
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	**15,071**	-	**(15,071)**	-	-	-
Transfer to statutory and legal reserves	-	**4,385**	-	-	-	-	**(4,385)**	-	-	-
Transaction with non-controlling interest (NCI)	-	-	-	-	-	-	-	-	**(17,772)**	**(17,772)**
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	**(710,123)**	**(710,123)**	-	**(710,123)**
Balance at 31 December 2020	**1,775,308**	**912,099**	**312,000**	**(98,332)**	**(358,088)**	**(437)**	**16,888,178**	**19,430,728**	**757,680**	**20,188,408**

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

Mashreqbank PSC Group

Consolidated statement of cash flows

	Notes	2020 AED'000	2020 USD'000 Equivalent	2019 AED'000	2019 USD'000 Equivalent
		For the year ended 31 December			
Cash flows from operating activities					
(Loss) / profit before taxation for the year		**(1,153,411)**	**(314,025)**	2,158,906	587,777
Adjustments for:					
Depreciation and amortisation	32	**231,963**	**63,154**	222,716	60,636
Allowances for impairment, net	31	**3,356,819**	**913,919**	1,212,187	330,026
Gain on disposal of property and equipment	30	**(8,110)**	**(2,208)**	(8,865)	(2,414)
Gain from disposal of investment properties	30	**-**	**-**	600	163
Unrealised (gain) / loss on other financial assets held at FVTPL	29	**(9,564)**	**(2,604)**	13,524	3,682
Fair value adjustments of investment properties	30	**23,876**	**6,500**	13,244	3,606
Net realized gain from sale of other financial assets measured at FVTPL	29	**(43,145)**	**(11,747)**	(76,614)	(20,859)
Dividend income from other financial assets measured at FVTOCI	29	**(24,961)**	**(6,796)**	(23,758)	(6,468)
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	29	**(242,328)**	**(65,976)**	(62,068)	(16,898)
Share of loss from associate		**(8,359)**	**(2,276)**	-	-
Unrealised loss on derivatives	30	**19,602**	**5,337**	20,260	5,516
Operating cash flows before tax paid and changes in operating assets and liabilities		**2,142,382**	**583,278**	3,470,132	944,767
Tax paid		**(51,840)**	**(14,114)**	(22,764)	(6,198)
Changes in operating assets and liabilities					
Increase in deposits with central banks		**(346,953)**	**(94,460)**	(2,217,619)	(603,762)
Increase in deposits and balances due from banks maturing after three months		**(309,339)**	**(84,220)**	(2,201,971)	(599,502)
Decrease/ (increase) in loans and advances measured at amortised cost		**1,755,721**	**478,007**	(6,486,591)	(1,766,020)
Increase in Islamic financing and investment products measured at amortised cost		**(102,448)**	**(27,892)**	(1,600,851)	(435,843)
Increase in reinsurance assets		**(306,002)**	**(83,311)**	(113,120)	(30,798)
Increase in other assets		**(1,089,214)**	**(296,546)**	(269,203)	(73,292)
Decrease/ (increase) in financial assets carried at FVTPL		**3,893**	**1,060**	(612,458)	(166,746)
Increase / (decrease) in repurchase agreements with banks		**1,201,186**	**327,031**	(147,444)	(40,143)
Increase / (decrease) in customers' deposits		**(63,599)**	**(17,315)**	3,917,716	1,066,626
(Decrease) / increase in Islamic customers' deposits		**(2,644,695)**	**(720,037)**	3,832,554	1,043,440
Increase in deposits and balances due to banks		**3,659,885**	**996,429**	1,243,837	338,643
Increase in insurance contract liabilities		**493,990**	**134,493**	176,629	48,088
Increase / (decrease) in other liabilities		**858,350**	**233,692**	(311,102)	(84,700)
Net cash generated from / (used in) operating activities		**5,201,317**	**1,416,095**	(1,342,255)	(365,440)

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

Mashreqbank PSC Group

Consolidated statement of cash flows (continued)

		For the year ended 31 December			
		2020		2019	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	12	**(336,461)**	**(91,604)**	(378,200)	(102,967)
Purchase on intangible assets	13	**(137,468)**	**(37,427)**	(76,207)	(20,747)
Proceeds from sale of property and equipment		**117,500**	**31,990**	9,782	2,663
Proceeds from sale of investment properties		**-**	**-**	2,450	667
Purchase of other financial assets measured at fair value or amortised cost		**(12,740,338)**	**(3,468,646)**	(9,020,116)	(2,455,790)
Proceeds from sale of other financial assets measured at fair value or amortised cost		**8,885,295**	**2,419,084**	7,773,847	2,116,484
Dividend income from other financial assets measured at FVTOCI	29	**24,961**	**6,796**	23,758	6,468
Net cash used in investing activities		**(4,186,511)**	**(1,139,807)**	(1,664,686)	(453,222)
Cash flows from financing activities					
Transaction with NCI		**(17,772)**	**(4,839)**	-	-
Dividend paid		**(710,123)**	**(193,336)**	(710,123)	(193,336)
Medium term notes issued		**2,355,258**	**641,236**	9,972,949	2,715,205
Medium term notes redeemed		**(4,577,973)**	**(1,246,385)**	(6,319,581)	(1,720,550)
Net cash (used in) / generated from financing activities		**(2,950,610)**	**(803,324)**	2,943,245	801,319
Net decrease in cash and cash equivalents		**(1,935,804)**	**(527,036)**	(63,696)	(17,342)
Net foreign exchange difference		**9,613**	**2,617**	(7,340)	(1,999)
Cash and cash equivalents at 1 January		**22,766,807**	**6,198,423**	22,837,843	6,217,765
Cash and cash equivalents at 31 December	35	**20,840,616**	**5,674,004**	22,766,807	6,198,423

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020

1 General information

Mashreqbank PSC (the "Bank") was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank carries on retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management activities through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries (collectively the "Mashreqbank PSC Group" or "Group"), as listed in Note 36.

The address of the Bank's registered office is P.O. Box 1250, Dubai, United Arab Emirates.

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

2.1 New and revised IFRS applied on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2020, 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 years.

- **Amendments to IFRS 3 -** This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

- **Amendments to IAS 1 and IAS 8** - These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

- **Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform -** These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries. The Group has applied the hedging relief available under the amendment.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.1 New and revised IFRS applied on the consolidated financial statements (continued)

- **Amendments to Conceptual framework** – The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

- **Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions** - As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs. The impact of the amendment is immaterial on the consolidated financial statements of the Group.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS issued but not yet effective and not early adopted

The Group has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New standards, amendments and interpretations	Effective for annual periods beginning on or after
IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied.	1 January 2023

IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.

Management expects that the adoption of IFRS 17 will have an impact on the amounts reported and disclosures made in these consolidated financial statements in respect of its insurance contracts issued and reinsurance contracts held. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Group performs a detailed review. Management has completed the gap analysis in relation to this standard and is currently in the process of performing a detailed assessment of the impact of the above new standard on the Group's consolidated financial statements.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS issued but not yet effective and not early adopted (continued)

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **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.	1 January 2022

The impact of the above amendment is expected to be immaterial on the consolidated financial statements of the Group.

• **Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 9 and IFRS 16**	1 January 2022

Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'.

The impact of the above amendments is expected to be immaterial on the consolidated financial statements of the Group.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

2 Application of new and revised International Financial Reporting Standards (IFRS) (continued)

2.2 New and revised IFRS issued but not yet effective and not early adopted (continued)

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark (IBOR) reform** The Phase 2 amendments that were issued on 27 August 2020 address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform (for example, where lease payments are indexed to an IBOR rate). Refer to note 43 of the financial statements for the Group's program on IBOR reform.	1 January 2021

There are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2020 that would be expected to have a material impact on the consolidated financial statements of the Group.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies

3.1 Statement of compliance

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").

Federal Decree Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Bank is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments, including derivatives, investment properties and reserves for unit linked policies which are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands AED, except where otherwise indicated.

The accounting policies used in the preparation of this consolidated financial statements are consistent with those audited annual consolidated financial statements for the year ended 31 December 2019.

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.3 Basis of 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:

- 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 raising 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/or 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 statement of profit or loss 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 attributable 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

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 shareholders of the Parent.

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to the consolidated statement of profit or loss or transferred directly to retained earnings.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in the consolidated statement of profit or loss.

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.

Business combinations

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.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Business combinations (continued)

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated statement profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

3.4 Goodwill

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.3 above) 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.

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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition

(a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments is calculated by applying the effective interest rate (refer Note 3.14.1) to the gross carrying amount of the financial instrument, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision) and are recognised within 'interest income' and 'interest expense' in the consolidated statement of profit or loss.

(b) Income from Islamic financing and investments products

The Group's policy for recognition of income from Islamic financing and investments products is described in Note 3.20 *(iii)*.

(c) Fee and commission income and expenses

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

(ii) Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(d) Dividend income

Dividend income from investments is recognised in the consolidated statement of profit or loss when the Group's right to receive dividend has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of Income can be measured reliably).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition (continued)

(e) Insurance contracts revenue and insurance commission income

Premiums are recognised as revenue (earned premium) on time-proportion basis over the effective period of policy coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

Premium on life assurance policies are accounted for on the date of writing of policies and on subsequent due dates.

Insurance commission income is recognised when the policies are written based on the terms and percentages agreed with the reinsurers.

(f) Gain or loss from redemption of medium-term loans

Gain or loss from redemption of medium-term loans represents the difference between the amount paid and the carrying amount of the liability on the date of redemption.

(g) Rental income

Rental income from investment property which are leased under operating leases are recognised on a straight-line basis over the term of the relevant lease.

3.6 Leasing

The group leases various branches, offices and premises for ATMs. Rental contracts are typically made for fixed periods of 12 months to 5 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.6 Leasing (continued)

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

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

- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date less any lease incentives received

3.7 Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in UAE Dirham (AED), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

The presentation currency of the Group is the UAE Dirham (AED); however, for presentation purposes only, additional columns for US Dollar (USD) equivalent amounts have been presented in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows and certain notes to the consolidated financial statements using a fixed conversion rate of USD 1.00 = AED 3.673.

In preparing the financial statements of the individual entities, transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.7 Foreign currencies (continued)

Exchange differences are recognised in the consolidated statement of profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised initially in the foreign currency translation reserve and recognised in consolidated statement of profit or loss on disposal of the net investment.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in AED using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group's Currency translation reserve. Such exchange differences are recognised in the consolidated statement of profit or loss in the period in which the foreign operation is disposed.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Bank losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.9 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including properties under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the reporting date. Gains or losses arising from changes in the fair values of investment properties are included in the profit or loss in the year in which they arise.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the period of retirement or disposal.

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation or commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use. Fair value is determined by open market values based on valuations performed by independent surveyors and consultants or broker's quotes.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and capital work in progress are not depreciated.

Depreciation is recognised so as to write off the cost of assets (other than land and capital work in progress), using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	Years
Properties for own use	20 – 50
Furniture, fixtures, equipment and vehicles	4 - 15
Improvements to freehold properties and others	5 - 10

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Capital work-in-progress are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.11 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

3.12 Intangible assets

Intangible assets include software which are stated at cost less amortisation and any accumulated impairment losses. Amortisation is charged on a straight lines over the estimated useful lives of 5 to 10 years. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

3.14 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the consolidated statement of profit or loss. Immediately after initial recognition, an expected credit loss ("ECL") allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVTOCI, as described in note 43, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

3.14.1 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

(i) Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.

Debt instruments:

Debt instruments are measured at amortised cost if both of the following conditions are met:

i. the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
ii. the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

All other financial assets except for debt instruments carried at amortized cost are subsequently measured at fair value.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and Interest ('SPPI'), and that are not designated at fair value through profit or loss (FVTPL), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 43.

- Fair value through other comprehensive income (FVTOCI): financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVTOCI. Movements in carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment Income'.

- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within 'Net investment income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in 'Net investment income'.

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and there were no material reclassification during the year.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Group's right to receive payments is established.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

Amortised cost and effective interest method

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

(ii) Impairment of financial assets

The Group assesses on a forward-looking basis the expected credit losses (‘ECL’) associated with its debt instrument assets carried at amortised cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 43 provides more detail of how the expected credit loss allowance is measured.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans

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.

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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans (continued)

Derecognition other than on a modification

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 derecognition are therefore not met. This also applies to certain securitisation transactions in which the Group retain a subordinated residual interest.

3.14.2 Financial liabilities

Classification and subsequent measurement

Financial liabilities (including deposits and balances due to banks, repurchase agreements with banks, medium term loans and customer deposits) 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).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities (continued)

- 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.

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.

3.14.3 Financial guarantee contracts and loan 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. Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 43).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.4 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the consolidated statement of profit or loss;

- for financial assets that are monetary items and designated as at FVTOCI, any foreign exchange component is recognized in consolidated statement of profit or loss;

- for financial assets that are non-monetary items and designated as at FVTOCI, any foreign exchange component is recognised in the consolidated statement of comprehensive income; and

- for foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

3.15 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts or when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.16 Derivative financial instruments

The Group deals with derivatives such as forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased). Further details of derivatives financial instruments are disclosed in Note 41. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments (continued)

(a) Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 *Financial Instruments* (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3.17 Hedge accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 41 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated statement of profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the consolidated statement of profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the consolidate statement of profit or loss from that date.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in consolidated statement of profit or loss, and is included in the other income line item.

Amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are reclassified to consolidated statement of profit or loss in the periods when the hedged item affects in the recognition of a non-financial assets or a non-financial liability, the gains and losses previously recognised in consolidated statement of comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in the consolidated statement of comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecase transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated statement of profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cumulative translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the cumulative translation reserve are reclassified to the consolidated statement of profit or loss on the disposal of the foreign operation.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts

3.18.1 Product classification

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.

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price 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.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime even if the insurance risk reduces significantly during this period unless all rights and obligations are extinguished or expire. An investment contract can however be classified as an insurance contract after its inception if the insurance risk becomes significant.

Some insurance contracts and investment contracts contain discretionary participating features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer;
- that are contractually based on:

  (i) the performance of a specified pool of contracts or a specified type of contract,
  (ii) realised/unrealised investment returns on a specified pool of assets held by the issuer or,
  (iii) the profit or loss of the Company, fund or other entity that issues that contract.

Under IFRS 4 *Insurance Contracts*, DPF can be either treated as an element of equity or as a liability, or can be split between the two elements. The Group policy is to treat all DPF as liabilities within insurance or investment contract liabilities.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

The policyholder bears the financial risks relating to some insurance contracts or investment contracts. Such products are usually unit-linked contracts.

3.18.2 Recognition and measurement

Insurance contracts are classified into two main categories, depending on the nature of the risk, duration of the risk and whether or not the terms and conditions are fixed.

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission.

Claims and loss adjustment expenses are charged to the profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

3.18.4 Life assurance contracts

In respect of the short term life assurance contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage. The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before the deduction of the commission.

In respect of long term life assurance contracts, premiums are recognised as revenue (earned premiums) when they become payable by the contract holder. Premiums are shown before deduction of commission.

Premiums for group credit life policies are recognised when paid by the contract holder.

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised. The liability is based on the assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

Where a life assurance contract has a single premium or limited number of premium payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in-force or for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at the inception of the contract.

Claims and benefits payable to contract holders are recorded as expenses when they are incurred.

3.18.5 Reinsurance contracts

Contracts entered into 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 recognised as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer, are included in insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance contract assets.

The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract assets are impaired, the Group reduces the carrying amount of the reinsurance contract assets to their recoverable amounts and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

The Group also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premium and claims on assumed reinsurance contracts are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

At the end of the reporting period, proportions of net retained premium of the general insurance and medical insurance are provided to cover portions of risks which have not expired. The reserves are calculated on a time-proportion basis whilst maintaining the minimum reserve requirements required by the regulations relating to insurance companies. Unearned premium for group life and individual life classes of business is estimated by the Group's actuary in the calculation of the insurance contracts liabilities for life assurance business.

(b) Additional reserve

The additional reserve comprises of the provisions made for:

- the estimated excess of potential claims over unearned premiums (premium deficiency),
- the claims incurred but not reported at the end of the reporting period (IBNR), and
- the potential shortfall in the estimated amounts of the unpaid reported claims.

The reserve represents management's best estimates of the potential liabilities at the end of the reporting period. The liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy by the Group's actuary and changes are made to the provision.

(c) Life assurance fund

The life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality tables. Adjustments to the balance of the fund are effected by charging to consolidated statement of profit or loss.

(d) Unit-linked liabilities

For unit-linked policies, the liability is equal to the policy account values. The account value is the number of units times the bid price.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(e) Outstanding claims

Insurance contract liabilities towards outstanding claims are recognised for all claims intimated and unpaid at the end of the reporting period. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when it is expired, discharged or cancelled.

Deferred Policy Acquisition Costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised as follows:

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;
- For long-term insurance contracts, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and
- For long-term investment contracts, DAC is amortised over a period of four years.

3.18.7 Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

3.18.8 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the profit or loss.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.19 Taxation

Where applicable, provision is made for current and deferred taxes arising from the operating results of overseas branches that are operating in taxable jurisdictions.

3.20 Islamic financing and investment products

In addition to conventional banking products, the Group offers its customers a variety of non-interest based banking products, which are approved by its Internal Sharia'h Supervision Committee.

Any conventional terminologies that are used only for reasons of legal requirement, explanation and/or clarity will be considered as replaced with its Shari'ah compliant equivalent and will not impact the Islamic products or documentation in terms of their Shari'ah compliance.

All Islamic banking products are accounted for in conformity with the accounting policies described below:

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

Murabaha is a sale of goods with an agreed upon profit mark-up on the cost.

The arrangement is referred to as a Murabaha to the Purchase Orderer where the company sells to a customer a commodity or an asset, which the company has purchased and acquired, based on a promise received from customer.

Ijarah

Ijarah is a contract, or part of contractual agreement, that transfers the usufruct of an asset (the underlying asset) for a period of time in exchange for an agreed consideration, from lessor (the owner of underlying asset i.e. the company) to a lessee (the customer).

This may involve a hybrid Ijarah arrangement (known as Ijarah Muntahia Bittamleek) which, in addition to the Ijarah contract, includes a promise (by the company) resulting in transfer of the ownership of the underlying asset to the lessee (the customer) through a sale or gift – independent of Ijarah Contract.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Istisna'

Istisna' is a contract of sale of specified items to be manufactured or constructed, with an obligation on part of the manufacturer or builder (contractor) to deliver them to the customer upon completion.

Under this arrangement, the Group provides funds to a customer for construction of a real estate and/or manufacturing of any other assets. Istisna' requires properly specifying the finished product. The customer is required to arrange/employ all the resources required to produce the specified asset(s).

Mudaraba

Mudaraba is a partnership in profit whereby one party provides capital (Rab al-Mal) and the other party provides labour (Mudarib). The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba profit. In case of loss, the same is borne by Rab-al-Mal. The Mudarib is not liable for losses except in case of misconduct in respect to Mudaraba fund, negligence and breach of the terms of Mudaraba contract.

Wakala

Wakala is an act of one party (principal) delegating another party (the agent) to perform a permissible activity on his behalf. This may involve Al-Wakalah Bi Al-Istithmar, in which the Company appoints another person an agent to invest its funds with an intention to earn profit, 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.

(ii) Accounting policy

Islamic financing and investment products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income. The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period. Allowance for impairment is made against Islamic financing and investment products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.14.1). Islamic financing and investment products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy

Income from Islamic financing and investing assets are recognised in the consolidated statement of profit or loss using the effective profit method.

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the balance outstanding.

Ijara

Ijara income is recognised on effective profit rate basis over the lease term.

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala

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.

(iv) Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) are calculated according to the Group's standard procedures and are approved by the Group's Shari'ah Supervisory Board.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

3 Summary of significant accounting policies (continued)

3.21 Provision for employees' end of service indemnity

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 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 2020 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 18).

Pension and national contribution for UAE citizens are made by the Group in accordance with Federal Law No. 7 of 1999 and no further liability exists.

3.22 Acceptances

Acceptances 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.

3.23 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and other balances with the UAE Central Bank (excluding statutory reserve) and money market placements which are maturing within three months from the value date of the deposit or placement. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

4.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Loss (ECL) is further detailed in note 43.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

4.2 Fair value of financial instruments

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. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

4.3 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, recognised market accepted pricing models and from counterparty statements. When prices are not available, 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 and other valuation techniques commonly used by market participants.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

4.4 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

5 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

	2020 AED'000	2019 AED'000
Cash on hand	**996,803**	908,016
Balances with central banks:		
Current accounts and other balances	**8,124,831**	10,508,330
Statutory deposits	**3,770,307**	5,473,354
Certificates of deposit	**5,050,000**	4,050,000
	17,941,941	20,939,700

(b) The geographical analysis of the cash and balances with central banks is as follows:

	2020 AED'000	2019 AED'000
Within the UAE	**14,186,941**	11,733,205
Outside the UAE	**3,755,000**	9,206,495
	17,941,941	20,939,700

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current account balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 0.21% (31 December 2019: 2.08%) per annum

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

6 Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	2020 AED'000	2019 AED'000
Demand	**2,419,545**	1,456,009
Overnight	**-**	62,441
Time	**25,985,607**	25,156,000
	28,405,152	26,674,450
Less: Allowance for impairment	**(166,122)**	(108,602)
	28,239,030	26,565,848

(b) The above represent deposits and balances due from:

	2020 AED'000	2019 AED'000
Banks within the UAE	**5,878,872**	5,043,396
Banks outside the UAE	**22,526,280**	21,631,054
	28,405,152	26,674,450
Less: Allowance for impairment	**(166,122)**	(108,602)
	28,239,030	26,565,848

(c) *Allowance for impairment movement:*

	2020 AED'000	2019 AED'000
At beginning of the year	**108,602**	66,749
Charge during the year (Note 31)	**54,678**	38,931
Interest in suspense	**2,910**	2,902
Exchange rate and other adjustments	**(68)**	20
At end of the year	**166,122**	108,602

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

7 Other financial assets

(a) The analysis of the Group's other financial assets as at 31 December is as follows:

	2020 AED'000	2019 AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit and loss (FVTPL)		
Debt securities	**815,671**	876,295
Equities		
Quoted	**6,719**	14,990
Unquoted	**1,112**	245
Mutual and other funds	**629,865**	599,310
	1,453,367	1,490,840
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	**6,470,966**	2,466,253
Equities		
Quoted	**459,821**	501,480
Unquoted	**54,949**	63,593
	6,985,736	3,031,326
Total other financial assets measured at fair value (A)	**8,439,103**	4,522,166
(iii) Other financial assets measured at amortised cost		
Debt securities	**11,021,883**	10,901,518
Less: Allowance for impairment	**(21,229)**	(26,365)
Total other financial assets measured at amortised cost (B)	**11,000,654**	10,875,153
Total other financial assets [(A) +(B)]	**19,439,757**	15,397,319

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

7 Other financial assets (continued)

(b) The geographic analysis of other financial assets is as follows:

	2020 AED'000	2019 AED'000
Within the UAE	**4,687,824**	3,167,938
Outside the UAE	**14,773,162**	12,255,746
	19,460,986	15,423,684
Less: Allowance for impairment	**(21,229)**	(26,365)
	19,439,757	15,397,319

(c) The analysis of other financial assets by industry sector is as follows:

	2020 AED'000	2019 AED'000
Government and public sector	**15,706,622**	10,961,051
Commercial and business	**660,723**	1,182,859
Financial institutions	**3,044,738**	2,784,506
Other	**27,674**	468,903
	19,439,757	15,397,319

(d) The movement of the allowance for impairment of other financial assets measured at amortised cost during the year was as follows:

	2020 AED'000	2019 AED'000
At the beginning of the year	**26,365**	56,329
Reversal during the year (Note 31)	**(5,134)**	(32,317)
Exchange rate and other adjustments	**(2)**	2,353
At end of the year	**21,229**	26,365

(e) The fair value of other financial assets measured at amortised cost amounted to AED 11.33 billion as of 31 December 2020 (31 December 2019: AED 11.10 billion) (Note 43).

(f) At 31 December 2020, certain financial assets measured at amortised cost, financial assets measured at fair value included debt securities with an aggregate carrying value of AED 1,112 million (fair value of AED 1,146 million) [31 December 2019: carrying value of AED 1,093 million (fair value of AED 1,119 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 708 million (31 December 2019: AED 1,089 million).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

7 Other financial assets (continued)

(g) During the year ended 31 December 2020, the Group has reviewed its portfolio and sold certain other financial assets measured at amortised cost, resulting in a gain of AED 63 million on the sale.

(h) As of 31 December 2020, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.

(i) During the period from 1 January 2020 to 31 December 2020, dividends received from financial assets measured at FVTOCI amounting to AED 25 million (year ended 31 December 2019: AED 24 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.

(j) As of 31 December 2020, change in fair value of other financial assets measured at FVTPL resulted in gain of AED 10 million (31 December 2019: a loss of AED 14 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).

(k) As of 31 December 2020, change in fair value of other financial assets measured at FVTOCI resulted in a loss of AED 104 million (31 December 2019: a gain of AED 57 million) and was recognised in the consolidated statement of comprehensive income.

(l) During the year ended 31 December 2020, the Group purchased and disposed equity shares amounting to AED 1,227 million (31 December 2019 :AED 1,251 million) and AED 1,251 million (31 December 2019 : AED 1,303 million) respectively.

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

8 Loans and advances measured at amortised cost

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	2020 **AED'000**	2019 AED'000
Loans	**54,811,763**	57,183,573
Overdrafts	**5,331,364**	5,825,415
Credit cards	**1,784,967**	1,887,551
Others	**761,943**	658,109
Total	**62,690,037**	65,554,648
Less: Allowance for impairment	**(5,403,626)**	(3,844,371)
	57,286,411	61,710,277

(b) The analysis of loans and advances measured at amortised cost by industry sector is as follows:

	2020 **AED'000**	2019 AED'000
Manufacturing	**9,193,245**	9,558,830
Construction	**5,409,471**	7,005,045
Trade	**12,839,915**	12,427,310
Transport and communication	**3,091,235**	3,265,643
Services	**5,916,728**	6,525,024
Financial institutions	**1,221,367**	950,620
Personal	**7,697,088**	8,176,471
Residential mortgage	**5,538,042**	5,505,912
Government and related enterprises	**11,782,946**	12,139,793
	62,690,037	65,554,648
Less: Allowance for impairment	**(5,403,626)**	(3,844,371)
	57,286,411	61,710,277

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

8 Loans and advances measured at amortised cost (continued)

(c) The analysis of allowance for impairment on loans and advances measured at amortised cost by industry sector is as follows:

	31 December 2020 AED'000	31 December 2019 AED'000
Manufacturing	**341,500**	286,249
Construction	**452,769**	362,027
Trade	**646,108**	223,310
Transport and communication	**136,437**	78,539
Services	**655,002**	336,175
Financial institutions	**68,996**	95,750
Personal	**1,446,062**	1,094,070
Residential mortgage	**140,016**	107,730
Government and related enterprises	**1,516,736**	1,260,521
	5,403,626	3,844,371

(d) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books which have been fully provided. Interest is accrued on most of these accounts for litigation purposes only. As at 31 December 2020 and 2019, legal proceedings are pursued for some of these accounts by the Group in the normal course of business.

(e) The movement during the year of the allowance for impairment and suspended interest of loans and advances measured at amortised cost was as follows:

	2020 AED'000	2019 AED'000
At beginning of the year	**3,844,371**	3,480,583
Impairment allowance for the year (Note 31)	**2,393,760**	830,925
Interest in suspense	**292,394**	147,990
Exchange rate and other adjustments	**9,329**	31,244
Written off during the year	**(1,136,228)**	(646,371)
At end of the year	**5,403,626**	3,844,371

(f) In determining the recoverability of loans and advances, the Group considers any change in the credit quality of the loans and advances measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk at customer level is limited due to the fact that the customer base is large and unrelated.

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

8 Loans and advances measured at amortised cost (continued)

(g) At 31 December 2020, certain loans and advances measured at amortised cost included loans with an aggregate carrying value of AED 1,435 million (fair value of AED 1,134 million) [31 December 2019: carrying value of AED Nil (fair value of AED Nil)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 550 million (31 December 2019: AED nil).

9 Islamic financing and investment products measured at amortised cost

(a) The analysis of the Group's Islamic financing and investment products measured at amortised cost is as follows:

	2020 AED'000	2019 AED'000
Financing		
Murabaha	**8,788,168**	8,798,444
Ijara	**6,087,374**	5,824,623
	14,875,542	14,623,067
Investment		
Wakala	**426,010**	271,835
	426,010	271,835
Total	**15,301,552**	14,894,902
Less: Unearned income	**(647,879)**	(309,555)
Allowance for impairment	**(407,330)**	(128,590)
	14,246,343	14,456,757

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

9 Islamic financing and investment products measured at amortised cost (continued)

(b) The analysis of Islamic financing and investment products measured at amortised cost by industry sector is as follows:

	2020 AED'000	2019 AED'000
Manufacturing	**1,025,362**	634,654
Construction	**3,531,481**	4,003,630
Trade	**1,365,946**	1,832,296
Transport and communication	**388,312**	312,759
Services	**3,093,488**	3,230,516
Financial institutions	**1,052,322**	1,079,112
Personal	**2,023,739**	1,231,533
Residential mortgage	**1,155,660**	1,158,522
Government and related enterprises	**1,665,242**	1,411,880
Total	**15,301,552**	14,894,902
Less: Unearned income	**(647,879)**	(309,555)
Allowance for impairment	**(407,330)**	(128,590)
	14,246,343	14,456,757

(c) The analysis of allowance for impairment on Islamic financing and investment products measured at amortised cost by industry sector is as follows:

	2020 AED'000	2019 AED'000
Manufacturing	**9,452**	43,756
Construction	**243,891**	15,285
Trade	**55,767**	10,594
Transport and communication	**12,906**	1,299
Services	**22,678**	9,109
Financial institutions	**3,931**	3,716
Personal	**8,571**	9,533
Residential mortgage	**45,782**	34,667
Government and related enterprises	**4,352**	631
	407,330	128,590

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

9 Islamic financing and investment products measured at amortised cost (continued)

(d) Allowance for impairment movement:

	2020 AED'000	2019 AED'000
At beginning of the year	**128,590**	139,056
Impairment allowance for the year (Note 31)	**310,864**	47,611
Profit in suspense	**29,477**	2,716
Exchange rate and other adjustments	**-**	(10,000)
Written off during the year	**(61,601)**	(50,793)
At end of the year	**407,330**	128,590

(e) In determining the recoverability of Islamic financing and investment products, the Group considers any change in the credit quality of the Islamic financing and investment products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk at customer level is limited due to the fact that the customer base is large and unrelated.

(f) At 31 December 2020, certain Islamic financing and investment products measured at amortised cost included with an aggregate carrying value of AED 471 million (fair value of AED 455 million) [31 December 2019: carrying value of AED Nil (fair value of AED Nil)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 222 million (31 December 2019: AED Nil).

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

10 Other assets

	2020 **AED'000**	2019 AED'000
Interest receivable	**277,350**	318,671
Property acquired in settlement of debts*	**94,951**	110,196
Prepayments	**70,556**	80,252
Positive fair value of derivatives (Note 41)	**1,512,413**	667,381
Insurance related receivables (net) **	**583,020**	599,005
Insurance related deferred acquisition costs	**154,765**	132,200
Credit card related receivables	**313,322**	245,185
Taxes paid in advance	**102,519**	108,509
Commission / income receivable	**32,758**	44,252
Advances to suppliers/ vendors	**138,395**	119,368
Others	**198,406**	313,246
	3,478,455	2,738,265

* As of 31 December 2020, property acquired in settlement of debts includes property with a book value of AED 209 million (31 December 2019: AED 230 million) against which a provision of AED 114 million is held (31 December 2019: AED 120 million). This includes some properties which are registered in the name of the Chairman on trust and for the benefit of the Group.

** As of 31 December 2020, the Group has recorded a provision of AED 431 million (31 December 2019: AED 458 million) against insurance related receivables.

11 Investment properties

	2020 **AED'000**	2019 AED'000
At fair value		
At beginning of the year	**473,591**	489,885
Change in fair value during the year (Note 30)	**(23,876)**	(13,844)
Disposals during the year	**-**	(2,450)
At end of the year	**449,715**	473,591

All of the Group's investment properties are held under freehold interest and located in the UAE. As at 31 December 2020, AED 60 million (2019: AED 61 million) was classified as level 2 and AED 390 million (AED 412 million) as level 3 in the fair value hierarchy.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

11 Investment properties (continued)

Valuation processes

The Group's investment properties were valued as at 31 December 2020 by independent external professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. The fair value is in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS").

Valuation techniques underlying management's estimation of fair value

Valuation of Group's investment properties was determined using either of Discounted Cash Flow (DCF), Residual valuation, Income capitalization and sales comparison methods based on the available inputs as follows.

DCF method of valuation considers expected net cash flow discounted using discount rates which reflect current market conditions. Residual method considers construction costs for development, capitalization rates based on the location, size, quality of the properties and market data, operational cost estimates to maintain the property for its useful life and estimated vacancy rates. Income capitalization method considers contracted rental income and capitalization rate. Sales comparison approach consider value of comparable properties in close proximity adjusted for differences in key attributes such as property size and quality of interior fittings.

Sensitivity on the fair value of Investment properties based on each methodology was as follows:

For sales comparison method, if the prices of the comparable properties were to increase /(decrease) by +1%/1%, the fair value would increase/(decrease) by AED 0.6 million / (0.6 million). DCF method, if the discount rates were to increase/(decrease) by +0.25%/-0.25% each and considering all other assumptions to remain constant, the fair value would increase/(decrease) by +1%/-1%. Residual or income capitalization method, if the capitalization rates were to increase/(decrease) by +0.25%/-0.25% and considering all other assumptions to remain constant, the fair value would increase/(decrease) by +7%/-6%.

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

12 Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and others AED'000	Right-of-use assets AED'000	Capital work-in-progress* AED'000	Total AED'000
Cost						
At 1 January 2019	845,860	409,611	163,780	-	389,467	1,808,718
Initial application of IFRS 16	-	-	-	234,777	-	234,777
Additions during the year	-	55,001	43,809	18,898	260,492	378,200
Transfers	(211,024)	1,363	140	-	(7,391)	(216,912)
Disposals/write-offs/elimination	(3,333)	(135,054)	(55,435)	(61,549)	-	(255,371)
At 31 December 2019	**631,503**	**330,921**	**152,294**	**192,126**	**642,568**	**1,949,412**
Additions during the year	**-**	**48,692**	**96,644**	**42,684**	**148,441**	**336,461**
Transfers	**532,928**	**100,192**	**113,061**	**-**	**(746,181)**	**-**
Disposals/write-offs/elimination	**(7,924)**	**(35,919)**	**(135,768)**	**(39,734)**	**-**	**(219,345)**
At 31 December 2020	**1,156,507**	**443,886**	**226,231**	**195,076**	**44,828**	**2,066,528**
Accumulated depreciation and impairment						
At 1 January 2019	187,916	298,657	95,311	-	-	581,884
Initial application of IFRS 16	-	-	-	96,225	-	96,225
Charge for the year (Note 32)	18,848	44,691	29,173	56,934	-	149,646
Disposals/write-offs	(3,333)	(131,042)	(50,412)	(61,549)	-	(246,336)
At 31 December 2019	**203,431**	**212,306**	**74,072**	**91,610**	**-**	**581,419**
Charge for the year (Note 32)	**22,878**	**46,279**	**33,865**	**52,716**	**-**	**155,738**
Disposals/write-offs/elimination	**(3,085)**	**(30,657)**	**(63,921)**	**(39,735)**	**-**	**(137,398)**
At 31 December 2020	**223,224**	**227,928**	**44,016**	**104,591**	**-**	**599,759**
Carrying amount						
At 31 December 2020	**933,283**	**215,958**	**182,215**	**90,485**	**44,828**	**1,466,769**
At 31 December 2019	428,072	118,615	78,222	100,516	642,568	1,367,993

* Capital work-in-progress mainly related to the new Head Office of the Group which has been capitalised during the year.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

13 Intangible assets

	Software AED'000
Cost	
At 1 January 2019	489,174
Additions during the year	76,207
Transfers	5,890
Disposals/write-offs/elimination	(44,819)
At 31 December 2019	**526,452**
Additions during the year	**137,469**
Disposals/write-offs/elimination	**(63,021)**
At 31 December 2020	**600,900**
Accumulated depreciation and impairment	
At 1 January 2019	234,423
Charge for the year (Note 32)	73,070
Disposals/write-offs	(43,918)
At 31 December 2019	**263,575**
Charge for the year (Note 32)	**76,225**
Disposals/write-offs/elimination	**(33,342)**
At 31 December 2020	**306,458**
Carrying amount	
At 31 December 2020	**294,442**
At 31 December 2019	262,877

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

14 Deposits and balances due to banks

(a) The analysis of deposits and balances due to banks is as follows:

	2020 AED'000	2019 AED'000
Time	**10,117,449**	6,802,998
Demand	**2,079,656**	1,987,182
Overnight	**2,647,275**	2,394,316
	14,844,380	11,184,496

(b) The above represent deposits and balances due to banks from:

	2020 AED'000	2019 AED'000
Banks within the UAE	**1,751,736**	2,134,251
Banks outside the UAE	**13,092,644**	9,050,245
	14,844,380	11,184,496

15 Repurchase agreements with banks

	2020 AED'000	2019 AED'000
Repurchase agreements	**2,289,723**	1,088,537

The above repurchase agreements with banks are at an average interest rate of 2.66% (31 December 2019: 2.27%) per annum. Collateral provided as security against these Repo borrowings are disclosed in Note 7(f), 8(g) and 9(f) to the consolidated financial statements.

16 Customers' deposits

(a) The analysis of customers' deposits is as follows:

	2020 AED'000	2019 AED'000
Current and other accounts	**39,907,698**	32,488,830
Saving accounts	**4,271,221**	2,885,960
Time deposits	**32,197,054**	41,064,782
	76,375,973	76,439,572

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

16 Customers' deposits (continued)

(b) Analysis by industry sector:

	2020 AED'000	2019 AED'000
Government and public sector	**5,812,573**	9,753,009
Commercial and business	**48,157,046**	47,012,973
Personal	**17,385,515**	15,914,398
Financial institutions	**4,533,955**	3,592,495
Other	**486,884**	166,697
	76,375,973	76,439,572

17 Islamic customers' deposits

(a) The analysis of Islamic customers' deposits is as follows:

	2020 AED'000	2019 AED'000
Current and other accounts	**2,649,864**	2,554,782
Saving accounts	**153,396**	123,388
Time deposits	**9,081,306**	11,851,091
	11,884,566	14,529,261

(b) Analysis by industry sector:

	2020 AED'000	2019 AED'000
Government and public sector	**456,559**	545
Commercial and business	**3,246,715**	4,014,033
Personal	**955,007**	801,454
Financial institutions	**7,226,285**	9,713,229
	11,884,566	14,529,261

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

18 Other liabilities

	2020 AED'000	2019 AED'000
Interest payable	**552,774**	631,704
Negative fair value of derivatives (Note 41)	**1,292,784**	607,014
Insurance related payables	**594,729**	755,461
Accrued expenses	**925,219**	568,702
Income received in advance	**295,802**	297,334
Pay orders issued	**550,775**	420,930
Provision for employees' end of service indemnity**	**248,331**	234,499
Provision for taxation	**90,936**	69,645
Lease liability	**82,160**	93,891
Others	**706,656**	1,112,593
Allowance for impairment – off balance sheet	**468,742**	158,785
	5,808,908	4,950,558

** Provision for employees' end of service indemnity included AED 231 million (31 December 2019: AED 216 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per UAE Labour Law.

The remaining amount of provision for employees' end of service indemnity relates to overseas branches and subsidiaries outside UAE and is computed based on the local laws and regulations of respective jurisdictions.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

19 Medium-term loans

	2020 AED'000	2019 AED'000
Medium term notes	**9,616,042**	11,838,757

(a) The maturities of the medium-term notes (MTNs) issued under the Euro Medium Term Note (EMTN) programme are as follows:

Year	**2020 AED'000**	2019 AED'000
2020	**-**	4,370,545
2021	**2,225,351**	1,624,111
2022	**2,126,261**	1,780,371
2023	**402,886**	250,557
2024	**3,994,994**	3,775,725
2025	**826,462**	-
2029	**40,088**	37,448
	9,616,042	11,838,757

Medium term notes are denominated in following currencies:

	2020 AED'000	2019 AED'000
U.S. Dollars	**6,904,126**	9,703,241
Japanese Yen	**887,436**	896,221
Australian Dollars	**56,785**	-
Chinese Yuan	**1,161,424**	617,109
Euro	**90,246**	161,112
South African Rand	**40,077**	-
Great Britain Pound	**475,948**	461,074
	9,616,042	11,838,757

The Group established a Euro Medium Term Note (EMTN) programme for USD 5 billion (AED 18.37 billion) under an agreement dated 15 March 2010.

During the year ended 31 December 2020, new medium-term notes of AED 2.3 billion were issued and AED 4.6 billion of medium-term notes were redeemed.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

20 Insurance contract liabilities and reinsurance contract assets

	2020 AED'000	2019 AED'000
Insurance contract liabilities		
Outstanding claims	**2,295,448**	1,946,066
Incurred but not reported claims reserve	**623,989**	483,661
Life assurance fund	**133,755**	172,799
Unearned premium	**1,295,244**	1,310,585
Unit linked liabilities	**391,701**	332,324
Unallocated loss adjustment expenses reserve	**7,642**	8,354
	4,747,779	4,253,789

	2020 AED'000	2019 AED'000
Recoverable from re-insurers		
Outstanding claims	**1,838,783**	1,527,696
Incurred but not reported claims reserve	**344,412**	313,844
Life assurance fund	**24,981**	30,497
Unearned premium	**683,744**	713,881
	2,891,920	2,585,918

	2020 AED'000	2019 AED'000
Insurance contract liabilities-net		
Outstanding claims	**456,665**	418,370
Incurred but not reported claims reserve	**279,577**	169,817
Life assurance fund	**108,774**	142,302
Unearned premium	**611,500**	596,704
Unit linked liabilities	**391,701**	332,324
Unallocated loss adjustment expenses reserve	**7,642**	8,354
	1,855,859	1,667,871

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

20 Insurance contract liabilities and reinsurance contract assets (continued)

20.1 Movement in the provision for outstanding claims, IBNR and unallocated loss adjustment expenses and the related reinsurers' share

	2020			**2019**		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
At 1 January	**2,438,081**	**(1,841,540)**	**596,541**	2,198,056	(1,690,257)	507,799
Claims incurred during the year	**2,772,951**	**(1,668,815)**	**1,104,136**	2,603,569	(1,456,820)	1,146,749
Claims settled during the year	**(2,283,953)**	**1,327,160**	**(956,793)**	(2,363,544)	1,305,537	(1,058,007)
At 31 December	**2,927,079**	**(2,183,195)**	**743,884**	2,438,081	(1,841,540)	596,541

20.2 Movement in life assurance fund

	AED'000
At 1 January 2019	173,331
Net movement during the year	(31,029)
At 31 December 2019	**142,302**
Net movement during the year	**(33,528)**
At 31 December 2020	**108,774**

20. 3 Movement in unit linked liabilities

	AED'000
At 1 January 2019	319,883
Net movement during the year	12,441
At 31 December 2019	**332,324**
Net movement during the year	**59,377**
At 31 December 2020	**391,701**

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

20 Insurance contract liabilities and reinsurance contract assets (continued)

The following table presents the sensitivity of the value of insurance contract liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance contract liabilities. For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No losses arose in either 2020 or 2019, based on the results of the liability adequacy test. The table below indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of further deterioration in the variable.

	Change in assumptions	**Increase /(decrease) in net liability**	
		2020	2019
		AED'000	AED'000
Morality/morbidity	**+10%**	**620**	763
Discount rate	**+75bps**	**(3,149)**	(4,105)
Morality/morbidity	**-10%**	**(625)**	(767)
Discount rate	**-75bps**	**3,400**	4,456

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

As at 31 December 2020, 177,530,823 ordinary shares of AED 10 each (31 December 2019: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

(b) Statutory and legal reserves

In accordance with UAE Federal Law No. (2) of 2015, 10% of net profit for the year is to be transferred to the statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the UAE. this level is 50% of the issued and paid up share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

(c) General reserve

The general reserve is computed pursuant to the Bank's Articles of Association and can be used for the purposes determined by the Annual General Meeting.

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

21 Issued and paid up capital and reserves (continued)

(d) Currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. AED), are recognised directly in consolidated statement of comprehensive income and accumulated in the Currency translation reserve. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are included in the Currency translation reserve. Exchange differences previously accumulated in the Currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to the consolidated statement of profit or loss on the disposal or reduction of net equity via distribution of the foreign operation.

(e) Investments revaluation reserve

Investments revaluation reserve shows the effects from the fair value measurement of Financial assets measured at FVTOCI. The change in fair value for the year amounted to a loss of AED 104 million (31 December 2019: gain of AED 57 million) and was reflected in the consolidated statement of comprehensive income [note 7(k)].

(f) Cash flow hedge reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of cross currency swap hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value for cross currency swap of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to consolidated statement of profit or loss only when the hedged transaction affects the consolidated statement of profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Group's accounting policy.

(g) Dividends on equity instruments

At the Annual General Meeting of the shareholders held on 9 March 2020, the shareholders approved a cash dividend of 40% for the year ended 31 December 2019 (31 December 2018: cash dividend of 40%) of the issued and paid up capital amounting to AED 710 million (31 December 2018: AED 710 million).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

22 Non-controlling interests

	2020 **AED'000**	2019 AED'000
At beginning of the year	**710,348**	621,585
Initial application of IFRS 16	**-**	(49)
Share of profit for the year (Note 36)	**72,575**	70,948
Share of other comprehensive (loss)/ income for the year	**(7,471)**	17,864
Transaction with NCI	**(17,772)**	-
At end of the year	**757,680**	710,348

23 Contingent liabilities and commitments

(a) The analysis of the Group's contingent liabilities and commitments is as follows:

	2020 **AED'000**	2019 AED'000
Guarantees	**40,270,247**	43,922,209
Letters of credit	**9,235,601**	7,845,546
Commitments for capital expenditure	**317,697**	485,774
	49,823,545	52,253,529

(b) Irrevocable undrawn credit facilities commitments as at 31 December 2020 amounted to AED 6.25 billion (31 December 2019: AED 6.96 billion).

The analysis of contingent liabilities and commitments by geographic region and industry sector is shown in Note 38 to the consolidated financial statements.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

24 Interest income

	2020 AED'000	2019 AED'000
Loans and advances	**2,895,464**	3,738,920
Banks	**847,521**	1,188,411
Central banks	**148,669**	283,191
Other financial assets measured at amortised cost	**444,623**	551,234
Others	**178,647**	119,658
	4,514,924	5,881,414

25 Income from Islamic financing and investment products

	2020 AED'000	2019 AED'000
Financing		
Murabaha	**304,587**	388,386
Ijara	**209,738**	352,642
Other	**-**	3,682
	514,325	744,710
Investment		
Mudaraba	**-**	104
Wakala	**29,152**	8,831
	29,152	8,935
Total	**543,477**	753,645

26 Interest expense

	2020 AED'000	2019 AED'000
Customers' deposits	**1,320,733**	1,697,191
Deposits and balances due to banks	**457,305**	558,745
Medium-term loans	**332,659**	361,919
	2,110,697	2,617,855

27 Distribution to depositors – Islamic products

This represents the share of income allocated to depositors of the Group. The allocation and distribution to depositors is approved by the Group's Internal Shari'ah Supervision Committee.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

28 Net fee and commission income

	2020 AED'000	2019 AED'000
Fee and commission income		
Commission income	**481,081**	518,576
Insurance commission	**195,032**	262,992
Fees and charges on banking services	**598,659**	649,629
Credit card related fees	**1,167,108**	1,290,650
Others	**200,656**	181,859
Total	**2,642,536**	2,903,706
Fee and commission expenses		
Commission expense	**(27,235)**	(33,192)
Insurance commission	**(324,485)**	(370,954)
Credit card related expenses	**(986,744)**	(1,040,024)
Others	**(84,560)**	(94,049)
Total	**(1,423,024)**	(1,538,219)
Net fee and commission income	**1,219,512**	1,365,487

29 Net investment income

	2020 AED'000	2019 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	**43,145**	76,614
Unrealised gain / (loss) on other financial assets measured at FVTPL [Note 7(j)]	**9,564**	(13,524)
Dividend income from other financial assets measured at FVTPL	**1,382**	862
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	**242,328**	62,068
Dividend income from other financial assets measured at FVTOCI [Note 7 (i)]	**24,961**	23,758
	321,380	149,778

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

30 Other income, net

	2020 AED'000	2019 AED'000
Foreign exchange gains	**390,141**	341,521
Insurance related income (Note 36)	**528,027**	489,314
Gain on disposal of property and equipment	**8,110**	8,865
Loss from disposal of investment properties (Note 11)	**-**	(600)
Unrealised loss on derivatives	**(19,602)**	(20,260)
Unrealised loss on investment properties (Note 11)	**(23,876)**	(13,244)
Others	**48,272**	(33,821)
	931,072	771,775

31 Allowances for impairment, net

	2020 AED'000	2019 AED'000
Deposits and balances due from banks [Note 6(c)]	**54,678**	38,931
Other financial assets measured at amortised cost [Note 7(d)]	**(5,134)**	(32,317)
Other financial assets measured at FVOCI	**728**	872
Loans and advances measured at amortised cost [Note 8(e)]	**2,393,760**	830,925
Islamic financing and investment products measured at amortised cost [Note 9(d)]	**310,864**	47,611
Other assets	**13,441**	13,808
Change in impairment allowance on off-balance sheet items	**312,099**	890
Loans and advances including Islamic financing and investment products measured at amortized cost written off	**327,384**	390,468
Recovery of loans and advances including Islamic financing and investment products measured at amortised cost previously written off	**(51,001)**	(79,001)
	3,356,819	1,212,187

32 General and administrative expenses

	2020 AED'000	2019 AED'000
Salaries and employees related expenses	**1,535,704**	1,615,176
Depreciation on property and equipment (Note 12)	**155,738**	149,646
Amortisation on intangible assets (Note 13)	**76,225**	73,070
Social contribution	**3,733**	1,504
Others	**1,173,456**	783,707
	2,944,856	2,623,103

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

33 (Loss) / earnings per share

The basic earnings per share is calculated by dividing the net (loss) / profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year.

	2020	2019
(Loss) / profit for the year (AED'000) (Attributed to owners of the Parent)	**(1,277,826)**	2,065,194
Number of ordinary shares outstanding [Note 21 (a)]	**177,530,823**	177,530,823
Basic and diluted (loss) / earnings per share (AED)	**(7.20)**	11.63

34 Proposed dividends

The board of Directors do not propose any cash dividend for the year ended 31 December 2020.

35 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central bank, certificates of deposits, balances with banks and money market placements which are maturing within three months from the value date of the deposit or placement, as below. Due to banks and repurchase agreements maturing within 3 months which were previously classified within cash and cash equivalents have now been shown as part of operating activities in the cash flow statement to be consistent with the current year presentation.

	2020 **AED'000**	2019 AED'000
Cash on hand	**996,803**	908,016
Current accounts and other balances with central banks	**8,124,832**	10,508,330
Certificates of deposit maturing within 3 months	**-**	1,050,000
Deposits and balances due from banks maturing within 3 months	**11,718,981**	10,300,461
	20,840,616	22,766,807

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

36 Investment in subsidiaries and associates

(a) At 31 December 2020, Mashreqbank PSC Group (the "Group") comprises the Bank and the following direct subsidiaries and associates:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Subsidiary				
Oman Insurance Company (PSC) Group	United Arab Emirates	63.94	63.94	Insurance & reinsurance
Mindscape FZ LLC	United Arab Emirates	100.00	100.00	IT services
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	100.00	Brokerage and asset & fund management
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	99.80	Islamic finance company
Injaz Services FZ LLC	United Arab Emirates	100.00	100.00	Service provider
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Fund manager
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Fund manager
Invictus Limited	Cayman Islands	100.00	100.00	Special purpose vehicle
Al Taqania Employment Services One Person Company LLC	United Arab Emirates	100.00	100.00	Employment Services
Al Kafaat Employment Services One Person Company LLC	United Arab Emirates	100.00	100.00	Employment Services
Shorouq Commodities Trading DMCC	United Arab Emirates	100.00	100.00	Trading
IDFAA Payment Services LLC	United Arab Emirates	100.00	100.00	Payment service provider
Osool – A Finance Company (PJSC)	United Arab Emirates	98.00	98.00	Finance
Associate				
Emirates Digital Wallet LLC	United Arab Emirates	23.22	23.22	Digital wallet service

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

36 Investment in subsidiaries and associates (continued)

(b) Financial details of non-wholly owned subsidiaries of the Bank are as follows:

Name of subsidiary	Profit/(loss) allocated to non-controlling interest		Accumulated non-controlling interests	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Oman Insurance Company (PSC) Group	**72,330**	71,038	**748,973**	705,110
Individually immaterial subsidiaries with non - controlling interests	**245**	(90)	**8,707**	5,238
	72,575	70,948	**757,680**	710,348

(c) Other financial assets measured at FVTPL include investments by Oman Insurance Company PSC amounting to AED 394 million (31 December 2019: AED 378 million).

(d) During the year ended 31 December 2020, the Group sold investments held at fair value through other comprehensive income amounting to AED 133 million at the time of sale (31 December 2019: AED 272 million). The Group realised a loss of AED 27 million (31 December 2019: gain of AED 107 million) which was transferred to retained earnings.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

36 Investment in subsidiaries and associates (continued)

(e) Below is the summarised financial information of Oman Insurance Company (PSC) Group, the only subsidiary in which there is a material non-controlling interest. The financial information represents balances before intra-group eliminations.

	2020 AED'000	2019 AED'000
Statement of financial position		
Total assets	**7,634,687**	7,086,843
Total liabilities	**5,558,920**	5,171,156
Net equity	**2,075,767**	1,915,687

	2020 AED'000	2019 AED'000
Statement of comprehensive income		
Gross insurance premium	**3,585,104**	3,545,062
Less: Insurance premium ceded to reinsurers	**(1,952,002)**	(1,934,027)
Net retained premium	**1,633,102**	1,611,035
Net change in unearned premium and mathematical reserve	**(939)**	25,028
Net earned insurance premium	**1,632,163**	1,636,063
Gross claims settled	**(2,283,953)**	(2,363,544)
Insurance claims recovered from reinsurers	**1,327,160**	1,305,537
Net claims settled	**(956,793)**	(1,058,007)
Net change in outstanding claims and additional reserve	**(147,343)**	(88,742)
Net claims incurred	**(1,104,136)**	(1,146,749)
Insurance related income (Note 30)	**528,027**	489,314
Net commission and other loss	**(87,085)**	(57,310)
Net investment income	**90,296**	91,695
Net expenses	**(334,693)**	(333,154)
Profit for the year	**196,545**	190,545
Other comprehensive (loss) / income	**(15,463)**	54,167
Total comprehensive income	**181,082**	244,712
Statement of cash flows		
Net cash generated from operating activities	**199,106**	250,589
Net cash used in investing activities	**(45,780)**	(207,169)
Net cash used in financing activities	**(26,950)**	(74,901)
Net increase / (decrease) in cash and cash equivalents	**126,376**	(31,481)

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

37 Related party transactions

(a) Certain "related parties" (such as directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group 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. Such related party transactions are disclosed below.

(b) Related party balances included in the consolidated statement of financial position are as follows:

	2020 AED'000	2019 AED'000
Balances with major shareholders		
Loans and advances	**3,575,543**	4,001,254
Deposits/ financial instruments under lien	**979,128**	801,542
Letter of credit and guarantees	**1,362,098**	1,568,804
Balances with directors and key management personnel		
Loans and advances	**72,488**	83,227
Deposits/ financial instruments under lien	**189,520**	189,052
Letter of credit and guarantees	**82,832**	106,747

(c) (Loss)/profit for the year includes related party transactions as follows:

	2020 AED'000	2019 AED'000
Transactions with major shareholders		
Interest income	**135,070**	185,109
Interest expense	**1,705**	1,778
Other income	**46,120**	46,073
Transactions with directors and key management personnel		
Interest income	**3,198**	4,024
Interest expense	**490**	839
Other income	**501**	1,073

(d) 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 amounted in total to AED 38 million (31 December 2019: AED 128 million).

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

38 Concentration of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2020			31 December 2019		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
UAE.	**87,839,540**	**72,494,789**	**31,227,767**	87,292,022	72,500,184	33,887,679
Other Middle East Countries	**27,550,381**	**24,881,814**	**6,145,460**	27,708,129	23,802,313	5,976,934
O.E.C.D.	**17,423,643**	**21,325,242**	**5,301,288**	20,500,957	20,421,622	4,729,767
Others	**25,709,676**	**19,632,987**	**6,831,333**	23,929,875	20,463,934	7,173,375
	158,523,240	**138,334,832**	**49,505,848**	159,430,983	137,188,053	51,767,755

(b) Industry Sectors

	31 December 2020			31 December 2019		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Government and public sector	**28,620,730**	**6,502,837**	**234,787**	24,272,006	9,940,082	171,384
Commercial & business	**54,486,979**	**65,843,185**	**38,604,914**	63,308,000	64,689,642	41,548,590
Personal	**15,180,851**	**18,869,364**	**407,917**	15,698,521	17,705,829	710,091
Financial institutions	**58,659,697**	**46,260,813**	**10,198,730**	54,577,712	44,101,826	9,248,130
Others	**1,574,983**	**858,633**	**59,500**	1,574,744	750,674	89,560
	158,523,240	**138,334,832**	**49,505,848**	159,430,983	137,188,053	51,767,755

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

39 Segmental information

Reportable segments

IFRS 8 – *Operating Segments* – requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Reportable segments

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO (the Group's chief operating decision maker) in order to allocate resources to the segment and to assess its performance. Information reported to the Group's CEO for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to different markets.

The Group's reportable segments under IFRS 8 *Operating Segments* are therefore as follows:

(i) Corporate and Investment Banking segment comprises of domestic corporate and commercial banking. It also includes global Financial Institution business. It offers complete suite of corporate banking products such as Trade finance, contracting finance, project finance, investment banking, cash management, correspondent banking, etc.

(ii) The Retail segment includes products and services offered to individuals or small businesses within U.A.E, Qatar and Egypt. The product offerings to customers include, current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, private banking, wealth management services and Islamic financing.

(iii) The Treasury & Capital Markets segment consists of customer flow business and proprietary business and funding centre management. Customer flow business includes transactions for foreign exchange, derivatives, margin FX, futures, hedging, investment products, domestic equities (brokerage) and asset management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

(iv) The International Banking segment consists of Corporate business for the Group's overseas banking branches. Product range covers complete suite similar to domestic corporate.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

39 Segmental information (continued)

Reportable segments (continued)

(v) The Insurance subsidiary, Oman Insurance Company (PSC) Group – comprises the Insurance segment. The product offerings to customers include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance.

(vi) Other consists of Head office and certain investments and assets held centrally due to their strategic significance to the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the consolidated financial statement Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and tax expenses.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2020						
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	**1,011,205**	**1,011,610**	**(40,898)**	**299,016**	**82,343**	**313,024**	**2,676,300**
Fee, commission and other income, net	**608,647**	**528,710**	**691,418**	**185,770**	**449,051**	**8,368**	**2,471,964**
Operating income	**1,619,852**	**1,540,320**	**650,520**	**484,786**	**531,394**	**321,392**	**5,148,264**
General and administrative expenses							**(2,944,856)**
Operating profit before impairment							**2,203,408**
Allowances for impairment, net							**(3,356,819)**
Loss before tax							**(1,153,411)**
Tax expense							**(51,840)**
Loss for the year							**(1,205,251)**
Attributable to:							
Owners of the Parent							**(1,277,826)**
Non-controlling interests							**72,575**
							(1,205,251)
Segment Assets	**59,657,530**	**17,073,297**	**42,811,800**	**11,915,327**	**7,513,691**	**19,551,595**	**158,523,240**
Segment Liabilities	**52,280,170**	**32,903,933**	**20,909,575**	**10,986,188**	**5,529,196**	**15,725,770**	**138,334,832**

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2019						
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	1,421,931	1,213,327	242,340	303,807	86,894	438,857	3,707,156
Fee, commission and other income, net	733,040	599,442	445,524	203,330	434,306	(128,602)	2,287,040
Operating income	2,154,971	1,812,769	687,864	507,137	521,200	310,255	5,994,196
General and administrative expenses							(2,623,103)
Operating profit before impairment							3,371,093
Allowances for impairment, net							(1,212,187)
Profit before tax							2,158,906
Tax expense							(22,764)
Profit for the year							2,136,142
Attributable to:							
Owners of the Parent							2,065,194
Non-controlling interests							70,948
							2,136,142
Segment Assets	63,866,899	17,065,798	38,357,176	12,384,411	7,039,901	20,716,798	159,430,983
Segment Liabilities	56,767,407	27,176,632	23,366,356	10,312,515	5,170,031	14,395,112	137,188,053

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

39 Segmental information (continued)

Geographical information

The Group operates in four principal geographical areas – UAE. (country of domicile), other Middle East Countries (Kuwait, Bahrain, Egypt and Qatar), O.E.C.D. (USA and UK) and other countries (India and Hong Kong).

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below:

	Operating income from external customers *		Non-current assets **	
	2020 AED'000	2019 AED'000	**2020 AED'000**	2019 AED'000
UAE	**4,188,913**	4,972,018	**2,093,416**	1,977,362
Other Middle East countries	**687,634**	724,402	**79,546**	87,363
O.E.C.D.	**186,150**	218,766	**29,582**	34,792
Other countries	**85,567**	79,010	**8,382**	4,944
	5,148,264	5,994,196	**2,210,926**	2,104,461

*   Operating income from external customers is based on the Group's operational centres.

**   Non-current assets include property & equipment, intangible assets and investment properties. The additions to non-current assets during the year relate to property & equipment and intangible assets which has been disclosed in note 12 and 13. Refer to note 12 and 13 for depreciation and amortisation.

Revenue from major products and services

Revenue from major products and services are disclosed in Notes 24, 25, 28, 29 and 30 in the consolidated financial statements.

Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2020 and 2019.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

40 Classification of financial assets and liabilities

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2020:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	17,941,941	17,941,941
Deposits and balances due from banks	-	-	28,239,030	28,239,030
Other financial assets measured at fair value	1,453,367	6,985,736	-	8,439,103
Other financial assets measured at amortised cost	-	-	11,000,654	11,000,654
Loans and advances measured at amortised cost	-	-	57,286,411	57,286,411
Islamic financing and investment products measured at amortised cost	-	-	14,246,343	14,246,343
Acceptances	-	-	12,767,461	12,767,461
Other assets	1,512,413	-	1,629,844	3,142,257
Total	2,965,780	6,985,736	143,111,684	153,063,200
Financial liabilities:				
Deposits and balances due to banks	-	-	14,844,380	14,844,380
Repurchase agreements with banks	-	-	2,289,723	2,289,723
Customers' deposits	-	-	76,375,973	76,375,973
Islamic customers' deposits	-	-	11,884,566	11,884,566
Acceptances	-	-	12,767,461	12,767,461
Other liabilities	1,292,784	-	3,286,327	4,579,111
Medium-term loans	-	-	9,616,042	9,616,042
Total	1,292,784	-	131,064,472	132,357,256

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

40 Classification of financial assets and liabilities (continued)

(b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2019:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	20,939,700	20,939,700
Deposits and balances due from banks	-	-	26,565,848	26,565,848
Other financial assets measured at fair value	1,490,840	3,031,326	-	4,522,166
Other financial assets measured at amortised cost	-	-	10,875,153	10,875,153
Loans and advances measured at amortised cost	-	-	61,710,277	61,710,277
Islamic financing and investment products measured at amortised cost	-	-	14,456,757	14,456,757
Acceptances	-	-	12,903,083	12,903,083
Other assets	667,381	-	1,740,054	2,407,435
Total	2,158,221	3,031,326	149,190,872	154,380,419

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial liabilities:				
Deposits and balances due to banks	-	-	11,184,496	11,184,496
Repurchase agreements with banks	-	-	1,088,537	1,088,537
Customers' deposits	-	-	76,439,572	76,439,572
Islamic customers' deposits	-	-	14,529,261	14,529,261
Acceptances	-	-	12,903,083	12,903,083
Other liabilities	607,014	-	2,962,116	3,569,130
Medium-term loans	-	-	11,838,757	11,838,757
Total	607,014	-	130,945,822	131,552,836

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

41 Derivatives

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes. These derivative financial instruments are based on observable market inputs i.e. Level 2.

(a) Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

(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.

(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.

The Group measures a net Credit Value Adjustment (CVA) on outstanding OTC derivative contracts to account for market value of 'credit risk' due to any failure to perform on contractual agreements by a counterparty. CVA is computed on all OTC derivatives asset classes including Foreign Exchange, Interest Rates, Equities and Commodities etc. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit losses in the derivatives portfolios. CVA is a function of our expected exposure to counterparts, probability of default and recovery rates. Internally the Group manages and monitor the exposure to this risk by defining controls and limits around a 'peak future exposure' (PFE) measure and in many cases by collateralizing facilities under Credit Support Annex (CSA). As at 31 December 2020, net incremental CVA charge to statement of profit or loss amounts to AED 16 million (31 December 2019: AED 24 million).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

41 Derivatives (continued)

31 December 2020

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to maturity 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	627,625	472,924	75,256,538	55,598,286	7,754,686	3,448,122	8,378,338	77,107
Foreign exchange options (bought)	-	84	8,520	8,520	-	-	-	-
Foreign exchange options (sold)	84	-	8,520	8,520	-	-	-	-
Interest rate swaps	775,662	774,128	34,160,162	551,080	788,143	764,660	20,292,523	11,763,756
Credit default swaps	-	240	55,095	-	-	-	55,095	-
Futures contracts purchased (Customer)	538	-	67,125	43,371	20,259	3,495	-	-
Futures contracts sold (Customer)	-	2,710	372,404	362,184	10,220	-	-	-
Futures contracts purchased (Bank)	2,710	6	380,692	368,452	11,598	643	-	-
Futures contracts sold (Bank)	35	538	154,865	85,194	20,259	49,412	-	-
Total	1,406,654	1,250,630	110,463,921	57,025,607	8,605,165	4,266,332	28,725,956	11,840,863
Derivatives held as fair value and cash flow hedge:								
Cross-currency swap	105,759	42,154	2,123,671	-	-	-	1,818,038	305,633
Total	1,512,413	1,292,784	112,587,592	57,025,607	8,605,165	4,266,332	30,543,994	12,146,496

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

41 Derivatives (continued)

31 December 2019

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to maturity				
				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	182,794	137,240	61,442,635	41,853,980	4,846,893	2,757,137	11,910,160	74,465
Foreign exchange options (bought)	-	6,311	3,879,499	649,849	1,258,064	1,971,586	-	-
Foreign exchange options (sold)	12,350	-	3,829,830	649,849	1,208,395	1,971,586	-	-
Interest rate swaps	440,909	438,099	20,342,094	135,216	118,411	1,212,923	13,669,504	5,206,040
Credit default swaps	148	-	11,723	-	-	-	11,723	-
Futures contracts purchased (Customer)	703	-	38,731	29,354	9,377	-	-	-
Futures contracts sold (Customer)	-	1,277	70,805	66,461	4,344	-	-	-
Futures contracts sold (Bank)	1,277	-	70,805	66,461	4,344	-	-	-
Futures contracts purchased (Bank)	-	703	38,731	29,354	9,377	-	-	-
Total	638,181	583,630	89,724,853	43,480,524	7,459,205	7,913,232	25,591,387	5,280,505
Derivatives held as fair value and cash flow hedge:								
Cross-currency swap	29,200	23,384	1,605,773	-	-	-	943,371	662,402
Total	667,381	607,014	91,330,626	43,480,524	7,459,205	7,913,232	26,534,758	5,942,907

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

42 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

- To comply with the capital requirements set by the Basel Committee on Banking Supervision (BCBS) and the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group'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 maintain a strong capital base and capital buffer to support the development of its business and provide adequate cushion to withstand a variety of stress scenarios and/or unforeseen risks.

Regulatory capital

On June 26, 2012, the BCBS issued the Basel III rules on the information banks must publicly disclose when detailing the composition of their capital, which set out a framework to ensure that the components of banks capital bases are publicly disclosed in standardised formats across and within jurisdictions for banks subject to Basel III.

Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banks to hold capital in excess of regulatory minimums.

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Parent company and overseas banking operations are directly supervised by their local regulators. In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

The Group's regulatory capital is analysed into two tiers, in line with the Central Bank regulation:

- Tier 1 capital, split into Common equity tier 1 (CET 1) which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, accumulated other comprehensive income and Additional tier 1 (AT 1) comprising of instrument issued by banks which are eligible for inclusion on AT 1 and are not included in CET 1.

- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets), qualifying subordinated liabilities not part of CET 1.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

42 Capital management (continued)

Regulatory capital (continued)

- Regulatory adjustment is applied in CET 1, AT 1 and Tier 2 capital consisting mainly of goodwill and other intangibles, deferred tax assets, cash flow hedge reserve. Additionally, threshold deduction is applied in case of exceeding the threshold limit.

As per the Central bank regulation for Basel III, the capital requirement as at 31 December 2020 is 13% inclusive of capital conservation buffer.

The Bank is required to comply with the following minimum requirement:

(i) CET1 must be at least 7% of risk weighted assets (RWA);
(ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and
(iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).

The Group's assets are risk-weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

42 Capital management (continued)

Regulatory capital (continued)

As part of its Capital Management, the Bank conducts an Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate to the Central Bank of the UAE that the Bank has implemented methods and procedures to ensure adequate capital resources and action plans in stress conditions, with due attention to all material risks. The Central Bank of the UAE conducts a Supervisory Review and Evaluation Process (SREP) to assess the soundness of the Bank's ICAAP.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group has issued medium-term floating rates notes.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Group's management of capital during the year.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

42 Capital management (continued)

Regulatory capital (continued)

(a) The Group's regulatory capital positions as at 31 December 2020 and 31 December 2019 were as follows:

	2020 AED'000	2019 AED'000
Common equity Tier 1 capital		
Issued and paid up capital	**1,775,308**	1,775,308
Statutory and legal reserve	**912,099**	907,714
General reserve	**312,000**	312,000
Currency translation reserve	**(98,332)**	(88,720)
Investments revaluation reserve	**(358,088)**	(273,595)
Retained earnings	**16,941,770**	18,185,459
Non-controlling interests – eligible amount	**-**	4,748
Less: Regulatory deductions	**(204,050)**	(48,631)
Total (A)	**19,280,707**	20,774,283
Additional Tier 1 capital	**-**	-
Total Tier 1 capital (B)	**19,280,707**	20,774,283
Tier 2 capital		
General provision	**1,471,323**	1,549,604
Total	**1,471,323**	1,549,604
Total capital base (C)	**20,752,030**	22,323,887
Credit risk	**117,705,874**	123,968,330
Market risk	**2,219,454**	2,770,836
Operational risk	**9,724,272**	10,424,335
Total risk-weighted assets (D)	**129,649,600**	137,163,501
Capital adequacy ratio [(C)/(D) x 100]	**16.01%**	16.28%

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

42 Capital management (continued)

Regulatory capital (continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management

The Risk Management Group ("RMG") is responsible for identifying, analysing, measuring and managing risk to ensure that the Group (i) remains within it's risk appetite; and (ii) generates sustainable risk-adjusted returns as mandated by the shareholders.

The Group is exposed to the following material risks:

- Credit risk
- Market risk
- Operational risk
- Liquidity risk

The Group's ability to consistently foster a robust risk management culture and framework is an important factor in its financial strength and stability.

Risk Management Framework

The Board of Directors (the "Board") through the Board Risk Committee ("BRC") has overall responsibility for establishment and oversight of the Group's risk management framework. They are assisted by various management committees including the Executive Management Committee ("ExCo"), Enterprise Risk Committee ("ERC"), Assets and Liabilities Committee ("ALCO"), Regulatory Compliance Committee ("RCC") and Information Security Committee ("ISC") and Business Continuity Management Steering Committee ("BCMSC") etc. These committees are appointed by the Board and assist the Board in management of risk in the Group including review and approval of all risk management policies.

While the Board carries ultimate responsibility for overall risk management, the ERC assists the Board/Board Risk Committee in discharging these responsibilities including identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the Group including recommending the Group's overall Risk Appetite.

The ERC has overall responsibility for oversight of risk management framework and risk appetite of the Group. The Enterprise Risk Committee is also responsible for the approval of credit policies and procedures of the Group and to ensure adherence to the approved policies and close monitoring of different risks within the Group. The Enterprise Risk Committee also approves policy exceptions, establishes and monitors various concentration limits (such as limits for country, industry sector etc.) as part of the risk appetite and reviews credit portfolio to manage asset quality.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Risk Management Framework (continued)

The Risk Management Group ("RMG") is independent of business groups and is led by a Chief Risk Officer ("CRO") with responsibility for deploying an enterprise-wide risk management and oversight of all material risks with the Group. The RMG is primarily responsible for defining the framework for management of all material risks within the Group.

The Internal Audit Group ("IAG") acts as the third line of defence function within the Group, independent from both the business units ("first line of defence") and Group Operational risk team ("second line of defence"). IAG provides independent assurance to stakeholders and senior management on compliance with all risk policies and procedures in the Group and the effectiveness of the risk management processes. This is undertaken through periodic reviews of all risk-taking units within the Bank, in addition to Risk Management.

Capital Management

The Group's capital management approach is designed to ensure that regulatory requirements are met at all times and that the Group's operating activities including its branches and subsidiaries are capitalized in line with the Group's risk appetite, target ratios and in accordance with local regulatory requirements.

The Bank's capital management approach further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the Group's budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the Group's annual Internal Capital Adequacy Assessment Process ICAAP. The capital management approach is set and governed primarily by the ALCO.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Risk Appetite & Stress Testing

The key to the Group's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and strategy.

Risk Appetite for the Group is set and approved by the Group's Board. The Group's risk appetite is disseminated down to business groups in alignment with business strategies for these groups.

Stress testing is a key management tool within the Group used to evaluate the sensitivity of current and forward risk profiles to shocks of varying nature and severity. Stress testing within the Group is governed by the Group's stress testing policy which sets out the approaches for stress testing and associated roles and responsibilities. The primary governance committee overseeing risk appetite and stress testing is the ERC.

Internal Capital Adequacy Assessment Process (ICAAP)

The purpose of the ICAAP is to inform the Board of the ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

This entails the computation of the bank's aggregated Economic Capital and the monitoring of the Group's capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Group's capital buffer (measured as available capital less required risk capital) and recommending actions, as warranted. The risk assessment is approved by the Board as part of the ICAAP submission.

Credit risk management

Credit risk is the risk of suffering financial loss, should any of the Group's customers fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from loan and advances, loan commitments arising from such lending activities, trade finance and treasury activities but can also arise from financial guarantees, letter of credit, endorsements and acceptances. The Group is also exposed to other credit risks arising from investments in debts instruments, derivatives as well as settlement balances with market counterparties.

The Chief Credit Officer ("CCO") of the Group is responsible for overseeing all aspects of credit risk management supported by a team of experienced and trained credit risk managers. The CCO and credit risk managers have delegated authority within the risk management framework to approve credit transactions and manage credit risk on an ongoing basis.

Credit risk is the single largest risk from the Group's business of extending Loans and Advances (including loan commitments, LCs and LGs) and carrying out investment in securities and debts; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised under the CCO function with regular governance and monitoring exercised by the BRC and ERC.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Specifically, BRC reviews and approves credit proposals that are beyond lending authorities delegated to management by the Board of Directors. In addition, BRC monitors key elements of the Bank's credit risk profile relative to the Bank's risk appetite. The BRC is supported by ERC in detailed review and monitoring of credit portfolio, including exposure concentrations.

Finally, an Early Alert Committee ("EAC") is in place to review and proactively identify potential problematic exposures within CIBG and IBG business groups and determine appropriate strategies. The EAC, along with the IFRS 9 Forum (a forum in place to oversee all aspects of Mashreq's IFRS 9 framework), plays an important role in ensuring that credit fundamentals are linked to determination of Significant Increase in Credit Risk (SICR) and staging for IFRS 9 purposes.

Loans and advances (including loan commitments, LCs and LGs)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using the concept of Expected Loss which requires the following measures

-Probability of Default (PD)
-Loss Given Default (LGD)
-Exposure at Default (EAD)

Under IFRS 9 expected loss is replaced by Expected Credit Loss (ECL), which is based on macro adjusted PD, LGD & EAD measures. Additionally, it also captures deterioration and lifetime likelihood of defaults.

Credit risk grading

The Group use specific internal rating models tailored to various industry segments/counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input into the model. The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 6 and 8 rating grade is lower than the difference in the PD between a 18 and 20 rating grade.

The Risk Rating system for performing assets ranges from 1 to 25, each grade being associated with a PD. Non-performing borrowers are rated 50, 60, 70 and 80, corresponding to NAUR (Non-accrual Under Restructuring), Substandard, Doubtful, Loss classifications and 99 for Write-off.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Credit risk grading (continued)

Borrower risk ratings are mapped into the following 5 Grades:

Grade	Risk Rating	Definition
Grade 1	1-12	Low Risk
Grade 2	13-17	Satisfactory Risk
Grade 3	18-20	High Risk
Grade 4	21-25	Watch List
Grade 5	50,60,70,80	Impaired

The Group uses a bespoke Financial Institutions ("FI") internal rating model to support the lending process. The FI Rating model consists of two major components: (i) the Financial – Macro Profile Analysis Assessment; and (ii) Business Analysis Assessment. Apart from the Financial and Business analysis factors, the model incorporates sovereign caps and consideration of group and government support, where applicable.

The FI rating model is utilized to rate all FI borrowers including those that are not externally rated. This rating is used to compute ECL staging for FI borrowers.

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a Significant Increase in Credit Risk ('SICR') since initial recognition is identified, then the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Amongst other factors, the identification of SICR is measured via a change in one year probability of default between the date of inception of facility and the date of IFRS 9 ECL run. Other factors include restructuring and account irregularities.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial assets in Stage 1 have their ECL measured at an amount equal to lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 have their ECL measured based on expected credit losses on a lifetime basis.
- Financial assets in Stage 3 are measured at an amount equal to lifetime expected credit losses or specific provision.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.

43 Risk management (continued)

Expected credit loss measurement (continued)

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced a SICR when a significant change in one year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date. In addition, a range of qualitative criteria's are also considered.

Quantitative criteria

Corporate loans:
For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- Operating performance
- Operating efficiency
- Debt service/ covenant breaches
- Distressed restructure
- Account performance / irregularities
- Liquidity assessment
- Capital structure

Retail:
For Retail portfolio, if the borrowers meet one or more of the following criteria:

- Adverse findings for an account/ borrower as per credit bureau data;
- Loan rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

Treasury:
- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the investment's expected performance & behavior of borrower (collateral value, payment holiday, payment to income ratio etc.).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Qualitative criteria:

Corporate Loans

For corporate loans, the following is also considered in determining a significant increase in probability of default:

- Net worth erosion
- Fraudulent activity
- Significant operations disruption
- Departure of key members of management
- Industry outlook
- Income stability Unavailable/inadequate financial information/financial statements
- Qualified report by external auditors
- Pending significant litigation
- Increase in operational risk
- Continued delay and non-cooperation by the borrower in providing key relevant documentation

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2020 and 31 December 2019.

Backstop:

A borrower that is more than 30 days past due on its contractual obligations is presumed to have a significantly increased credit risk as a backstop unless this presumption can be reasonably rebutted on the basis of supportable forward-looking information. The borrower is also flagged in the system and is therefore subject to closer monitoring.

Definition of default and credit-impaired assets

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

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets (continued)

Qualitative criteria:

According to the Basel definition, default is considered to have occurred with regard to particular obligors when either one of the following events have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Bank to actions like realizing security (if held).
- The Bank puts the credit obligation on a non-accrued status.
- The Bank makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Bank taking on the exposure.
- The Bank sells the credit obligation at a material credit-related economic loss.
- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees.
- The Bank has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Banking Group.
- The obligor is past due more than 90 days on any material credit obligation to the Banking Group.

The criteria above has been applied to all financial instruments held by the Group and is consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Group has adopted a forward exposure method for computing the ECL for each facility. The bank has opted for a monthly granular computation of PD, EAD and LGD.

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

Lifetime expected credit losses are expected credit loss resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

During economically challenging periods, the Group may choose to increase the scenario weightage of the pessimistic scenario under guidance from respective regulatory authorities in order to maintain higher level of ECL provisions & lower the scenario weightage of pessimistic scenario once a favourable trend is noticed in the macro economic climate. Such a change was effectuated in 2020 to reflect the impact of COVID-19, whereas the scenario weightage of the pessimistic scenario was increased to 80%. Further details are included on COVID-19 impact on measurement of ECL section.

The Group has implemented a risk rating model since 2005 which has enabled the Bank to collect historical risk ratings since 2005 and build point in time credit transition matrices for the last 14 years. This has enabled the bank to derive a credit index using the historical transition matrices. The credit index correlates with specific macro-economic factors, which have been statistically established through regression modelling.

These models were used to forecast future credit transitions using Moody's research macro-economic forecast under the IFRS 9 scenarios i.e. upwards and downwards.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month period or lifetime basis.
- For revolving committed products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining committed limit by the time of default.
- For contingent products like LC & LG, the exposure at default is predicted using a Credit conversion factor inline with the Basel regulatory guidelines.

The Group has adopted a workout methodology for LGD computation. For the Corporate segment, the Bank has developed the LGD framework using more than 21 years of data.

The LGDs are determined based on the factors which impact recoveries made following default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set by different borrower segments (e.g. Corporates, Financial Institutions etc.) in order to reflect differences in asset structures, collection strategies and historical recovery experience.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

The Group has revised the Wholesale LGD framework during 2020 in order to reflect recent recovery experience and additional admissible security types. Forward-looking economic information is also included in determining the 12-month and lifetime PD.

Forward looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the ECL parameters vary by geographies and borrower types. Impact of these economic variables on historical default rates is determined by performing statistical regression analysis to understand the relationship between these variables. Once the relationship has been established, the bank utilizes macroeconomic data for these variables from Moody's (Economy.com) and other recognized external sources (e.g. IMF) to obtain historical information and forecasts under base, optimistic and pessimistic scenarios. Expert judgement is applied in the process where the economic relationship between variables is weak or the forecast is deemed imprudent.

For unbiased and probability-weighted ECL calculation, the Group uses probabilities of 60%, 20% and 20% for baseline, optimistic and pessimistic macro-economic scenario respectively based on expert judgement in order to represent majority weight to base and an even weight to the rest. Refer to COVID-19 impact on measurement of ECL section for sensitivity analysis on probability-weighted ECL calculation.

Following are the macroeconomic variables used in the IFRS 9 PD models across different geographies:

1. Government Debt to GDP
2. Broad Money
3. Budget Expenditure to GDP
4. Oil Price
5. GDP
6. Industrial Production

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Sensitivity analysis

The Group has calculated ECL for wholesale borrowers at an individual financial instrument level and portfolio level for retail borrowers.

The most significant assumptions affecting the ECL allowance in respect of retail and wholesale credit portfolios are as follows:

- Government debt to GDP (% Change)
- Levels of board money (% Change)
- Oil price (% Change)

The Group has performed a sensitivity analysis on how ECL on the credit portfolio will change if the key assumptions used to calculate ECL change by a certain percentage. The impact on ECL due to changes in the forecasted probabilities of default as a result of variations in Total Debt to GDP and Broad Money by +10% / -10% in each scenario would result in an ECL reduction by AED 68 million and an ECL increase AED 74 million respectively. These variations are applied simultaneously to each probability weighted scenarios used to compute the 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets:

	2020				2019			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Cash and balances with Central Bank	**17,941,941**	**-**	**-**	**17,941,941**	20,939,700	-	-	20,939,700
Loss allowance	**-**	**-**	**-**	**-**	-	-	-	-
Carrying amount	**17,941,941**	**-**	**-**	**17,941,941**	20,939,700	-	-	20,939,700
Deposits and balances due from banks								
Investment-grade	**7,217,923**	**117,961**	**-**	**7,335,884**	6,722,691	1,707	-	6,724,398
BB+ & below	**5,598,832**	**2,926,065**	**-**	**8,524,897**	5,625,956	130,051	-	5,756,007
Unrated	**9,978,354**	**2,480,994**	**85,023**	**12,544,371**	12,999,473	1,156,243	38,329	14,194,045
	22,795,109	**5,525,020**	**85,023**	**28,405,152**	25,348,120	1,288,001	38,329	26,674,450
Loss allowance	**(69,256)**	**(41,409)**	**(55,457)**	**(166,122)**	(89,419)	(5,963)	(13,220)	(108,602)
Carrying amount	**22,725,853**	**5,483,611**	**29,566**	**28,239,030**	25,258,701	1,282,038	25,109	26,565,848

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2020			
Loans and advances -At amortised cost	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Grading 1	9,232,853	237,741	-	9,470,594
Grading 2	39,652,752	1,218,419	-	40,871,171
Grading 3	4,788,340	2,156,715	-	6,945,055
Grading 4	133,659	1,693,075	-	1,826,734
Grading 5	-	-	3,576,483	3,576,483
	53,807,604	5,305,950	3,576,483	62,690,037
Loss allowance	(556,764)	(2,274,612)	(2,572,250)	(5,403,626)
Carrying amount	53,250,840	3,031,338	1,004,233	57,286,411
Islamic financing and investment products measured at amortised cost				
Grading 1	2,518,566	3,073	-	2,521,639
Grading 2	8,111,630	104,287	-	8,215,917
Grading 3	2,646,357	86,713	-	2,733,070
Grading 4	24,766	97,351	-	122,117
Grading 5	-	-	1,060,930	1,060,930
	13,301,319	291,424	1,060,930	14,653,673
Loss allowance	(58,112)	(12,530)	(336,688)	(407,330)
Carrying amount	13,243,207	278,894	724,242	14,246,343

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2019			
Loans and advances -At amortised cost	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Grading 1	12,683,668	209,016	-	12,892,684
Grading 2	38,493,453	840,496	-	39,333,949
Grading 3	4,465,886	2,180,741	-	6,646,627
Grading 4	1,618,493	1,911,714	-	3,530,207
Grading 5	-	-	3,151,181	3,151,181
	57,261,500	5,141,967	3,151,181	65,554,648
Loss allowance	(435,818)	(1,498,488)	(1,910,065)	(3,844,371)
Carrying amount	56,825,682	3,643,479	1,241,116	61,710,277
Islamic financing and investment products measured at amortised cost				
Grading 1	1,743,753	5,496	-	1,749,249
Grading 2	9,114,779	72,591	-	9,187,370
Grading 3	2,247,020	319,674	-	2,566,694
Grading 4	613,183	134,411	-	747,594
Grading 5	-	-	334,440	334,440
	13,718,735	532,172	334,440	14,585,347
Loss allowance	(39,795)	(6,151)	(82,644)	(128,590)
Carrying amount	13,678,940	526,021	251,796	14,456,757

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2020			
	Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other financial assets measured at amortised cost				
Investment-grade	7,483,893	-	-	7,483,893
BB+ & below	3,170,045	-	-	3,170,045
Unrated	365,740	-	2,205	367,945
	11,019,678	-	2,205	11,021,883
Loss allowance	(19,024)	-	(2,205)	(21,229)
Carrying amount	11,000,654	-	-	11,000,654
Other financial assets measured at FVTOCI				
Investment-grade	6,266,974	-	-	6,266,974
BB+ & below	205,550	-	-	205,550
Unrated	43	-	-	43
	6,472,567	-	-	6,472,567
Loss allowance	(1,601)	-	-	(1,601)
Carrying amount	6,470,966	-	-	6,470,966

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2019			
	Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
Other financial assets measured at amortised cost				
Investment-grade	8,052,760	-	-	8,052,760
BB+ & below	1,583,518	1,009,106	-	2,592,624
Unrated	253,929	-	2,205	256,134
	9,890,207	1,009,106	2,205	10,901,518
Loss allowance	(19,047)	(5,113)	(2,205)	(26,365)
Carrying amount	9,871,160	1,003,993	-	10,875,153
Other financial assets measured at FVTOCI				
Investment-grade	2,197,921	-	-	2,197,921
BB+ & below	267,224	-	-	267,224
Unrated	1,980	-	-	1,980
	2,467,125	-	-	2,467,125
Loss allowance	(872)	-	-	(872)
Carrying amount	2,466,253	-	-	2,466,253

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2020				2019			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other assets	**-**	**585,565**	**428,432**	**1,013,997**	-	597,644	459,230	1,056,874
Loss allowance	**-**	**(17,789)**	**(413,188)**	**(430,977)**	-	(20,769)	(437,100)	(457,869)
Carrying amount	**-**	**567,776**	**15,244**	**583,020**	-	576,875	22,130	599,005
Acceptances	**12,680,894**	**86,567**	**-**	**12,767,461**	12,749,871	153,212	-	12,903,083
Loss allowance	**(25,277)**	**(1,021)**	**-**	**(26,298)**	(15,236)	(1,310)	-	(16,546)

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

Credit risk exposures relating to off-balance sheet items are as follows:	2020 Stage 1 12-month AED'000	2020 Stage 2 Lifetime AED'000	2020 Stage 3 Lifetime AED'000	2020 Total AED'000	2019 Stage 1 12-month AED'000	2019 Stage 2 Lifetime AED'000	2019 Stage 3 Lifetime AED'000	2019 Total AED'000
Letters of credit	**7,772,256**	**1,396,332**	**67,013**	**9,235,601**	7,634,816	210,730	-	7,845,546
Guarantees	**35,097,006**	**2,858,541**	**2,314,700**	**40,270,247**	40,882,679	3,039,530	-	43,922,209
Undrawn credit commitments -Irrevocable	**6,244,126**	**3,556**	**-**	**6,247,682**	6,963,757	-	-	6,963,757
	49,113,388	**4,258,429**	**2,381,713**	**55,753,530**	55,481,252	3,250,260	-	58,731,512
Loss allowance	**(66,481)**	**(50,963)**	**(325,000)**	**(442,443)**	(83,863)	(58,376)	-	(142,239)

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

The table below shows the maximum exposure to credit risk for financial assets that are not subject to impairment.

	2020 AED'000	2019 AED'000
Trading assets		
- Debt securities	**815,671**	876,295
- Derivatives	**1,406,654**	638,181
Hedging derivatives	**105,759**	29,200
	2,328,084	1,543,676

Risk management in the current economic scenario

Economic fallout from COVID-19 crisis continues to be significant and rapidly evolving at the present time. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. As at 31 December 2020, the Group has utilized AED 753 million of Zero Coupon Facility ("ZCF") under CBUAE Targeted Economic Support Scheme ("TESS") that was launched in April 2020 as a countermeasure to COVID-19. The ZCF is collateralized by certain financial assets measured at amortized cost and financial assets measured at fair value as disclosed in note 7(f). This facility is due for repayment on/before 30 June 2021.

The Group continues to closely monitor and assess the impact of COVID-19 crisis on credit portfolios and overall levels of credit risk. The Group has increased the frequency of portfolio reviews in order to identify and assess specific credit concerns resulting from the crisis, particularly for clients within directly impacted sectors, such as aviation, hospitality, travel & tourism, and retail sectors. In addition, the Group has proactively taken steps to manage credit issues arising out of COVID-19 in a manner that is fair to their clients while also serving the Group's interests. Overall, the Group continues to apply sound judgment in understanding and evaluating COVID-19 impact on its clients' cash flows and credit worthiness.

COVID-19 impact on measurement of ECL

The Group has robust governance in place to ensure appropriateness of the IFRS 9 framework and resultant Expected Credit Loss ("ECL") estimates at all times. Specifically, all aspects of the IFRS 9 framework are overseen by an executive IFRS 9 Forum ("the forum"). The forum is chaired by the Group Chief Risk Officer with participation from Chief Financial Officer, Chief Credit Officer and heads of business divisions as members. The Group, through the forum, reviews the appropriateness of inputs and methodology for ECL on an ongoing basis.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

In recognition of significant economic uncertainty due to the COVID-19 crisis and the associated challenge with applying IFRS 9 principles and requirements under these circumstances, CBUAE, Dubai Financial Services Authority ("DFSA") and the Financial Services Regulatory Authority (the "FSRA") jointly issued a guidance note to Banks and Finance companies ("Joint Guidance") in UAE on 15 April 2020 relating to estimation of IFRS 9 ECL provisions in context of the COVID-19 crisis. In addition, an addendum to the Joint Guidance was issued on 27 October 2020. The Group has taken into consideration provisions of the Joint Guidance and the addendum in all areas of the IFRS 9 framework and in estimating ECL for the year.

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in macroeconomic environment, risk profile as well as any actual and expected increase in credit risk. This assessment includes detailed review of potential impacts of COVID-19 on economic forecasts, industry sectors as well as individual clients, as relevant, based on the criteria's set out on page 105-107.

The outcome of the review is as follows:

(i) Classification of clients benefitting from payment deferrals into two groups; (a) Group 1: clients those are temporarily and mildly impacted; and (b) Group 2: clients that are significantly impacted and could see potential stage migrations:

(ii) Revision to IFRS 9 model inputs pertaining to macroeconomic forecasts; and

(iii) Incorporation of Judgmental Overlays ("JO") within total ECL to reflect the heightened credit risk within its credit portfolio.

Grouping of clients has been carried out based on the assessment of Significant Increase in Credit Risk ("SICR") for clients benefiting from payment deferrals. The Group has applied knowledge of its clients and judgement in assessing SICR and whether the impact of COVID-19 is temporary or longer term. Specifically, clients that are expected to face liquidity constraints without substantial changes in their creditworthiness have been classified in Group 1. For these clients, the Group holds the view that, despite being subject to payment deferrals, there is insufficient deterioration in credit quality to trigger a stage migration. On the other hand, clients that are expected to face substantial changes in their creditworthiness beyond liquidity issues have been classified as Group 2. Ultimately grouping of borrowers assists in determining whether a stage migration is warranted.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

As at 31 December 2020, the proportion of clients benefitting from deferrals along with their exposures and ECL is as follows:

		Group 1		Group 2	
Sector	Total gross carrying amount	Gross carrying amount	ECL	Gross carrying amount	ECL
		AED (in million)			
Manufacturing	10,219	112	1	1	-
Construction	8,941	1,086	6	62	7
Trade	14,206	1,914	106	36	9
Transport and communication	3,480	357	12	-	-
Services	9,153	2,334	6	56	3
Financial institutions	2,131	85	-	-	-
Personal*	9,721	3,703	65	358	76
Residential mortgage*	6,694	1,993	1	371	5
Government and related enterprises	13,447	131	-	-	-
	77,992	11,715	197	884	100

*The above category of "Personal" and "Residential Mortgage" mainly comprises of Retail portfolio of the Bank.

The Bank has deferred payments for customers inline with the economic relief programmes announced in the countries, where the Bank operates. Due to the payment deferrals, the contractual cashflows from these credit exposures (gross carrying amount of AED 12.6 billion) have been modified and in accordance with IFRS 9 requirements the Group has recognized a modification loss of AED 187 million, which is included as part of the ECL.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

The summary of customers benefiting from deferrals is as follows:

Stage	Group	Number of clients deferred	Payment deferrals	Exposure	Impairment allowance
			AED (in million)		
	Group 1	29,594	2,291	10,157	82
Stage 1	Group 2	7	148	148	9
		29,601	2,439	10,305	91
	Group 1	3,100	254	1,558	115
Stage 2	Group 2	3,267	121	736	91
		6,367	375	2,294	206
	Total	**35,968**	**2,814**	**12,599**	**297**

Reasonableness of ECL estimates under COVID-19 crisis

The Group performs historical analysis to determine key economic variables that impact credit risk across different portfolios. Macroeconomic forecasts for these economic variables are used to estimate risk parameters (PD and LGD) on a forward-looking basis for all borrowers and instruments that are in scope of IFRS 9 ECL framework.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

Reasonableness of ECL estimates under COVID-19 crisis (continued)

In accordance with IFRS 9 requirements, the Group estimates these risk parameters under optimistic, base and pessimistic scenarios with representative weights used to measure ECL. In accordance with provisions of the Joint Guidance, the Group updated macroeconomic forecasts[1] in Q3 to estimate ECL. At the same time, the Group reintroduced normalized scenario probability[2] across base, optimistic and pessimistic scenarios. No changes have been introduced in Q4 to either the macroeconomic variables and the scenario weights used in IFRS 9 ECL computations.

From a sensitivity analysis point of view, if the pessimistic scenario was changed by +10% / -10%, ECL would change by +/- AED 131 million. The situation around COVID-19 has resulted in an ECL increase of AED 275 million in 2020, when compared with 2019.

The Group continues to maintain a Judgmental Overlays ("JO") of AED 175 million to reflect potential increase in credit risk attributed to specific high-risk customers. The Group has reviewed early warning signals and ongoing credit performance for high risk customers in arriving at the JO. As a part of this process, the Group has individually looked at the population of wholesale and retail clients that are likely to face financial difficulties. As an outcome of this assessment, the Group has arrived at an additional impairment estimation of AED 175 million. The JO is inherently subject to high levels of estimation therefore the Group continues to regularly review and reassess the level of JO as new information becomes available. As at 31 December 2020, the overlays by categories are as follows:

	Gross carrying amount	Total overlay
	AED (in million)	
Loans and advances (including Islamic financing and investment products measured at amortised cost)	**77,992**	**143**
Due from banks	**28,405**	**32**
Other financial assets measured at amortised cost	**11,022**	**-**
Off-balance sheet items	**55,754**	**-**
	173,173	**175**

[1] The Bank utilizes 'UAE Total Debt/GDP', 'UAE Broad Money', 'UAE Budget expenditure as a % of GDP', 'Oil Price', 'World Industrial Production Growth' and 'World GDP growth' as leading macroeconomic variables, amongst others, within the Bank's IFRS 9 Model. Values for these have changed by +109%, +4%, +5.9%, -27%, -17.5% and -67.8% respectively under the adverse scenario for year 1 relative to 31 December 2019.
[2] Normalized scenario probability is based on 60% Base, 20% Optimistic and 20% Pessimistic scenario probability. Q2 utilized 80% pessimistic and 20% base scenario probability.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

Collateral and other credit enhancements

Collateral against loans and advances measured at amortised cost is generally held in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing. Collateral generally is not held over amounts due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group maintains substantial real estate and cash collateral, which also forms majority of the collateral base. The benefit of such collateral gets reflected in ECL through the LGD estimates. Allocation of both general and specific collateral is done at a facility level to estimate LGD. Financial instruments such as Repo transactions, embedded leverage note programs, etc. receive no ECL allocation on account of them being fully collateralized after application of relevant haircuts.

The Group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Group will take possession of the collateral to offset potential credit losses. Financial assets that are credit impaired and related collateral held in order to offset potential losses are shown below. The table below details the fair value of the collateral which is updated regularly:

	Loans and advances and Islamic financing and investment products		**Due from banks**	
	31 December 2020 AED'000	31 December 2019 AED'000	**31 December 2020 AED'000**	31 December 2019 AED'000
Against individually impaired:				
Properties	**1,264,662**	951,246	-	-
Equities	**-**	416,632		
Cash	**97,259**	5,002	-	-
Others	**197,403**	196,968	-	-
	1,559,324	1,569,848	-	-
Against not impaired:				
Properties	**24,222,693**	21,144,026	**-**	-
Equities	**715,766**	1,177,590	**-**	-
Cash	**15,490,902**	16,100,708	**1,137,424**	297,832
Others	**6,475,362**	5,190,756	**-**	-
	46,904,723	43,613,080	**1,137,424**	297,832
Total	**48,464,047**	45,182,928	**1,137,424**	297,832

43 Risk management (continued)

Loss allowance

The following tables explain the changes in the loss allowance for the year ended 31 December 2020 and 31 December 2019:

	2020				2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Deposits and balances due from banks								
Loss allowance as at 1 January	**89,419**	**5,963**	**13,220**	**108,602**	50,817	5,614	10,318	66,749
Transfers								
Transfer from Stage 1 to Stage 2	**(41,366)**	**41,366**	**-**	**-**	(5,773)	5,773	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	-	-	-	-
Transfer from Stage 2 to Stage 1	**3**	**(3)**	**-**	**-**	-	-	-	-
New financial assets originated	**108,536**	**-**	**-**	**108,536**	92,732	-	-	92,732
Changes in PDs/LGDs/EADs	**(87,336)**	**(5,917)**	**42,237**	**(51,016)**	(48,357)	(5,424)	2,902	(50,879)
Write-offs	**-**	**-**	**-**	**-**	-	-	-	-
Loss allowance as at 31 December	**69,256**	**41,409**	**55,457**	**166,122**	89,419	5,963	13,220	108,602

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2020				2019			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Loans and advances measured at amortised cost								
Loss allowance as at 1 January	**435,818**	**1,498,488**	**1,910,065**	**3,844,371**	393,497	1,498,365	1,588,721	3,480,583
Transfers								
Transfer from Stage 1 to Stage 2	**(394,706)**	**394,706**	**-**	**-**	(66,593)	66,593	-	-
Transfer from Stage 1 to Stage 3	**(30,878)**	**-**	**30,878**	**-**	(7,188)	-	7,188	-
Transfer from Stage 2 to Stage 1	**12,720**	**(12,720)**	**-**	**-**	10,973	(10,973)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(96,221)**	**96,221**	**-**	-	(45,131)	45,131	-
Transfer from Stage 3 to Stage 2	**-**	**155**	**(155)**	**-**	-	2,154	(2,154)	-
New financial assets originated	**592,872**	**-**	**-**	**592,872**	308,961	-	-	308,961
Changes in PDs/LGDs/EADs	**(59,062)**	**490,204**	**1,671,469**	**2,102,611**	(203,832)	(12,520)	917,550	701,198
Write-offs	**-**	**-**	**(1,136,228)**	**(1,136,228)**	-	-	(646,371)	(646,371)
Loss allowance as at 31 December	**556,764**	**2,274,612**	**2,572,250**	**5,403,626**	435,818	1,498,488	1,910,065	3,844,371

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2020				2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Islamic financing and investment products measured at amortised cost								
Loss allowance as at 1 January	**39,795**	**6,151**	**82,644**	**128,590**	51,293	20,109	67,654	139,056
Transfers				**-**				
Transfer from Stage 1 to Stage 2	**(11,818)**	**11,818**	**-**	**-**	(1,083)	1,083	-	-
Transfer from Stage 1 to Stage 3	**(4,001)**	**-**	**4,001**	**-**	(6,958)	-	6,958	-
Transfer from Stage 2 to Stage 1	**6**	**(6)**	**-**	**-**	99	(99)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(4,179)**	**4,179**	**-**	-	(1,284)	1,284	-
New financial assets originated	**42,916**	**-**	**-**	**42,916**	22,998	-	-	22,998
Changes in PDs/LGDs/EADs	**(8,786)**	**(1,254)**	**307,465**	**297,425**	(26,554)	(13,658)	57,541	17,329
Write-offs	**-**	**-**	**(61,601)**	**(61,601)**	-	-	(50,793)	(50,793)
Loss allowance as at 31 December	**58,112**	**12,530**	**336,688**	**407,330**	39,795	6,151	82,644	128,590

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2020				2019			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Other financial assets measured at amortised cost								
Loss allowance as at 1 January	**19,047**	**5,113**	**2,205**	**26,365**	56,329	-	-	56,329
Transfers								
Transfer from Stage 1 to Stage 2	**-**	**-**	**-**	**-**	(5,113)	5,113	-	-
New financial assets originated	**12,619**	**-**	**-**	**12,619**	23,996	-	-	23,996
Changes in PDs/LGDs/EADs	**(12,642)**	**(5,113)**	**-**	**(17,755)**	(55,382)	-	-	(55,382)
FX and other movements	**-**	**-**	**-**	**-**	(783)	-	2,205	1,422
Loss allowance as at 31 December	**19,024**	**-**	**2,205**	**21,229**	19,047	5,113	2,205	26,365

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2020				2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Other assets								
Loss allowance as at 1 January	**-**	**20,769**	**437,100**	**457,869**	-	158,838	365,443	524,281
Transfers								
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-	(125,267)	125,267	-
Changes in PDs/LGDs/EADs	**-**	**(2,960)**	**15,839**	**12,879**	-	(12,728)	22,954	10,226
Write-offs	**-**	**(20)**	**(39,751)**	**(39,771)**	-	(74)	(76,564)	(76,638)
Loss allowance as at 31 December	**-**	**17,789**	**413,188**	**430,977**	-	20,769	437,100	457,869

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2020				2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
LCs, LGs, irrevocable undrawn commitments and acceptances								
Loss allowance as at 1 January	**99,099**	**59,686**	**-**	**158,785**	85,937	64,851	-	150,788
Transfers				**-**				
Transfer from Stage 1 to Stage 2	**(6,417)**	**6,417**	**-**	**-**	(4,534)	4,534	-	-
Transfer from Stage 1 to Stage 3	**(97,972)**	**-**	**97,972**	**-**				
Transfer from Stage 2 to Stage 1	**1,845**	**(1,845)**	**-**	**-**	9,018	(9,018)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(6,863)**	**6,863**	**-**	-	(1,675)	1,675	-
Transfer from Stage 3 to Stage 2	**-**	**607**	**(607)**	**-**				
New financial assets originated	**155,606**	**-**	**-**	**155,606**	70,917	-	-	70,917
Changes in PDs/LGDs/EADs	**(60,404)**	**(6,018)**	**220,772**	**154,350**	(62,239)	994	(1,675)	(62,920)
Loss allowance as at 31 December	**91,757**	**51,984**	**325,000**	**468,741**	99,099	59,686	-	158,785

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Gross carrying amount

The following tables further explains the changes in the gross carrying amount for the year ended 31 December 2020 and 31 December 2019:

	2020				2019			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Cash and balances with central banks								
Gross carrying amount as at 1 January	**20,939,700**	**-**	**-**	**20,939,700**	20,147,826	-	-	20,147,826
New financial assets originated	**9,550,000**	**-**	**-**	**9,550,000**	4,050,000	-	-	4,050,000
Repayments and other movements	**(12,547,759)**	**-**	**-**	**(12,547,759)**	(3,258,126)			(3,258,126)
Gross carrying amount as at 31 December	**17,941,941**	**-**	**-**	**17,941,941**	20,939,700	-	-	20,939,700

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Deposits and balances due from banks								
Gross carrying amount as at 1 January	**25,348,120**	**1,288,001**	**38,329**	**26,674,450**	22,284,395	756,095	35,427	23,075,917
Transfers								
Transfer from Stage 1 to Stage 2	**(5,326,464)**	**5,326,464**	**-**	**-**	(1,272,567)	1,272,567	-	-
Transfer from Stage 2 to Stage 1	**1,415**	**(1,415)**	**-**	**-**	-	-	-	-
New financial assets originated	**25,956,861**	**-**	**-**	**25,956,861**	24,787,948	-	-	24,787,948
Repayments and other movements	**(23,184,822)**	**(1,088,031)**	**46,694**	**(24,226,159)**	(20,451,656)	(740,661)	2,902	(21,189,415)
Gross carrying amount as at 31 December	**22,795,110**	**5,525,019**	**85,023**	**28,405,152**	25,348,120	1,288,001	38,329	26,674,450

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Other financial assets measured at amortised cost and FVTOCI								
Gross carrying amount as at 1 January	**12,357,332**	**1,009,106**	**2,205**	**13,368,643**	12,033,723	-	-	12,033,723
Transfers								
Transfer from Stage 1 to Stage 2	**-**	**-**	**-**	**-**	(976,109)	976,109	-	
New financial assets originated	**9,391,139**	**-**	**-**	**9,391,139**	11,425,913	-	-	11,425,913
Repayments and other movements	**(4,256,227)**	**(1,009,106)**	**-**	**(5,265,333)**	(10,126,195)	32,997	2,205	(10,090,993)
Gross carrying amount as at 31 December	**17,492,244**	**-**	**2,205**	**17,494,449**	12,357,332	1,009,106	2,205	13,368,643

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Loans and advances measured at amortised cost								
Gross carrying amount as at 1 January	**57,261,500**	**5,141,967**	**3,151,181**	**65,554,648**	52,564,482	4,661,971	2,607,470	59,833,923
Transfers								
Transfer from Stage 1 to Stage 2	**(3,922,161)**	**3,922,161**	**-**	**-**	(2,601,861)	2,601,861	-	-
Transfer from Stage 1 to Stage 3	**(420,580)**	**-**	**420,580**	**-**	(309,396)	-	309,396	-
Transfer from Stage 2 to Stage 3	**-**	**(928,334)**	**928,334**	**-**	-	(400,724)	400,724	-
Transfer from Stage 3 to Stage 2	**-**	**1,249**	**(1,249)**	**-**	-	19,213	(19,213)	-
Transfer from Stage 2 to Stage 1	**378,362**	**(378,362)**	**-**	**-**	641,947	(641,947)	-	-
New financial assets originated	**34,226,398**	**-**	**-**	**34,226,398**	31,611,942	-	-	31,611,942
Repayments and other movements	**(33,715,915)**	**(2,452,731)**	**213,865**	**(35,954,781)**	(24,645,614)	(1,098,407)	499,175	(25,244,846)
Write-offs	**-**	**-**	**(1,136,228)**	**(1,136,228)**	-	-	(646,371)	(646,371)
Gross carrying amount as at 31 December	**53,807,604**	**5,305,950**	**3,576,483**	**62,690,037**	57,261,500	5,141,967	3,151,181	65,554,648

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Islamic financing and other investments measured at amortised cost								
Gross carrying amount as at 1 January	**13,718,735**	**532,172**	**334,440**	**14,585,347**	12,196,796	682,884	175,631	13,055,311
Transfers								
Transfer from Stage 1 to Stage 2	**(211,891)**	**211,891**	**-**	**-**	(348,697)	348,697	-	-
Transfer from Stage 1 to Stage 3	**(367,862)**	**-**	**367,862**	**-**	(25,795)	-	25,795	-
Transfer from Stage 2 to Stage 3	**-**	**(65,008)**	**65,008**	**-**	-	(19,781)	19,781	-
Transfer from Stage 2 to Stage 1	**10,679**	**(10,679)**	**-**	**-**	15,519	(15,519)	-	-
New financial assets originated	**7,880,139**	**-**	**-**	**7,880,139**	9,023,025	-	-	9,023,025
Repayments and other movements	**(7,728,481)**	**(376,952)**	**355,221**	**(7,750,212)**	(7,142,113)	(464,109)	164,026	(7,442,196)
Write-offs	**-**	**-**	**(61,601)**	**(61,601)**	-	-	(50,793)	(50,793)
Gross carrying amount as at 31 December	**13,301,319**	**291,424**	**1,060,930**	**14,653,673**	13,718,735	532,172	334,440	14,585,347

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Other assets								
Gross carrying amount as at 1 January	**-**	**597,644**	**459,230**	**1,056,874**	-	803,517	389,262	1,192,779
Transfers		**-**	**-**	**-**				
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-	(143,778)	143,778	-
Repayments and other movements	**-**	**(12,059)**	**8,953**	**(3,106)**	-	(62,095)	(73,810)	(135,905)
Write-offs	**-**	**(20)**	**(39,751)**	**(39,771)**				
Gross carrying amount as at 31 December	**-**	**585,565**	**428,432**	**1,013,997**	-	597,644	459,230	1,056,874
Acceptances								
Gross carrying amount as at 1 January	**12,749,871**	**153,212**	**-**	**12,903,083**	9,731,526	50,603	-	9,782,129
Transfers								
Transfer from Stage 1 to Stage 2	**(91,840)**	**91,840**	**-**	**-**	(150,146)	150,146	-	-
Transfer from Stage 2 to Stage 1	**394**	**(394)**	**-**	**-**				
New financial assets originated	**13,132,880**	**-**	**-**	**13,132,880**	12,847,188	-	-	12,847,188
Repayments and other movements	**(13,110,411)**	**(158,091)**	**-**	**(13,268,502)**	(9,678,697)	(47,537)	-	(9,726,234)
Gross carrying amount as at 31 December	**12,680,894**	**86,567**	**-**	**12,767,461**	12,749,871	153,212	-	12,903,083

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Off-balance sheet items								
At 1 January	**55,481,252**	**3,250,260**	**-**	**58,731,512**	51,406,203	4,349,289	-	55,755,492
Transfers								
Transfer from Stage 1 to Stage 2	**(2,124,307)**	**2,124,307**	**-**	**-**	(516,237)	516,237	-	-
Transfer from Stage 1 to Stage 3	**(2,334,330)**	**-**	**2,334,330**	**-**				
Transfer from Stage 2 to Stage 3	**-**	**(235,353)**	**235,353**	**-**	-	(25,771)	25,771	-
Transfer from Stage 3 to Stage 2	**-**	**1,127**	**(1,127)**	**-**				
Transfer from Stage 2 to Stage 1	**179,362**	**(179,362)**	**-**	**-**	310,990	(310,990)	-	-
New financial assets originated	**17,717,819**	**-**	**-**	**17,717,819**	16,218,373	-	-	16,218,373
Repayments and other movements	**(19,806,408)**	**(702,550)**	**(186,843)**	**(20,695,801)**	(11,938,077)	(1,278,505)	(25,771)	(13,242,353)
At 31 December	**49,113,388**	**4,258,429**	**2,381,713**	**55,753,530**	55,481,252	3,250,260	-	58,731,512

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may write-off financial assets but they are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owned in full, but which have been partially or fully written off due to no reasonable expectation of recovery.

Modification of financial assets

The Group modifies terms of loans provided to customers from time-to-time primarily due to ongoing client needs, commercial renegotiations or for managing distressed loans. In 2020, the Bank also modified terms for customers in line with COVID-19 economic relief programmes announced in countries where the Bank operates. Refer COVID-19 impact on measurement of ECL section for details on loans modified during the year.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial, it does not result in derecognition of the original asset. The Group may determine that credit risk has significantly improved after restructuring, and such assets are moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12 month ECL). This is only done when modified assets have performed in accordance with the new terms for twelve consecutive months or more.

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk excludes strategic and reputational risk.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Operational Risk Governance

Whilst the Group cannot eliminate all operational risks, it has developed a comprehensive framework of identifying, assessing, controlling, mitigating, monitoring and reporting Operational risk and consists of the following:

- Ownership of the risk & controls by businesses and functional units;
- Monitoring and validation by business;
- Oversight by Operational risk management team; and
- Independent review by Internal Audit

Operational risk management follows three lines of defence model;

The first line of defence is the Business Line Management. The operational risk governance will recognize that Business Units (BUs) are the owners of risk and hence responsible for identifying and managing the risks, inherent in the products, services and activities, within their BUs.

The second line of defence is the Operational Risk Management function, the Chief Risk Officer and the Enterprise Risk Committee. They are collectively responsible for designing, implementing, coordinating, reporting and facilitating effective Operational Risk Management on Group-wide basis.

The third line of defence is the Internal Audit who are responsible to independently assess the effectiveness and efficiency of the internal control, and for independently validate and provide an independent assurance to the Board Audit Committee (BAC) on the adequacy and effectiveness of the Operational Risk Management Framework.

The Board, through the Board Risk Committee, has the overall responsibility for managing operational risk at the Bank and ensure that the three line of defence approach is implemented and operated in an appropriate and acceptable manner.

The Group has adopted The Standardized Approach (TSA) to determine its operational risk capital requirements.

Operational Risk Appetite

The Group's operational risk appetite articulates the boundaries for quantitative and qualitative operational risks that the Bank is willing to take (or not take), with respect to pursuit of its strategic objectives. It helps in setting the risk culture across the Bank and facilitates an effective implementation of the Bank's Operational Risk Management Framework. The operational risk appetite is applied for decision-making and comprehending operational risk exposures across the Bank through implementation of policies, controls and operational risk tolerances.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Operational Risk Management Framework

The Group's Operational Risk Management Framework ("ORMF") is a set of interrelated tools and processes that are used to identify, assess, measure, monitor and remediate operational risks. Its components have been designed to operate together to provide a comprehensive approach to managing the Group's most material operational risks. ORMF components include the setup of the three lines of defence as well as roles and responsibilities for the Operational Risk management process and appropriate independent challenge, the Group's approach to setting Operational Risk appetite and adhering to it, the Operational Risk type and control taxonomies, the minimum standards for Operational Risk management processes including tools, independent governance, and the Bank's Operational Risk capital model. Tools implemented for the identification and assessment of Operational risk include and is not limited to:

a) Risk and Control Self-Assessment
b) Operational Risk Event Management
c) Key Risk Indicator Management
d) New Business Systems & Process Approval (NPPA); and
e) Issues and Action Management

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Incident management

The reporting of Operational risk incidents is a critical component of the Group's Operational risk management framework. This ensures greater risk transparency across the organisation and helps to identify gaps and facilitate timely remedial action for potential risk exposures.

The Central Bank of U.A.E. published final guidelines on operational risk management in October 2018. These guidelines lay out detailed supervisory expectations relating to operational risk governance, identification and assessment, systems and reporting.

The Group is in the process of assessing the Group's operational risk management framework in light of publication of operational risk management regulation by the Central Bank of U.A.E.

Market risk management

Market Risk is the risk that fair value or cash flows of financial instruments held by the Group or its income may be adversely affected by movement in market factors, such as interest rates, credit spreads, foreign exchange rates, equity and commodity prices.

Market Risk at the Group is governed by a comprehensive control framework as defined by the approved Market Risk Policy. This function is independent of any risk taking businesses. The Market Risk function folds under Risk Management Group and reports to the Chief Risk Officer of the Group.

Market risk arises from the Group's trading and non-trading activities. The Market Risk Management function primarily manages risks arising from trading activities. Interest risk exposure arising from non-trading activities is managed by the Assets & Liabilities Committee (ALCO). Trading risks are primarily concentrated in Treasury and Capital Markets (TCM) and are managed by a robust framework of market risk limits that reflect the Group's market risk appetite. Appropriate limits are placed on position sizes, stop loss levels, as well as on market factor sensitivities depending on the size and complexity of trading strategies involved. A comprehensive risk reporting framework is in place where by, the positions are monitored daily against the established limits and monitoring reports are circulated to the Market Risk Management and the respective Business Heads. In case of a limit exception, corrective action is taken in line with the Market Risk Policy or the concerned trading desk's limits mandate.

Each trading desk has a 'permitted product list' comprising of products and structures which have been determined to be appropriate for the TCM desk to trade. Any addition to this list is made after approval from Head of TCM, Head of Market Risk and Chief Risk Officer who assess the risks associated with the product and verify that they can be controlled effectively prior to approving the product.

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Market risk management (continued)

The bank uses Value at Risk (VaR) methodology as its core analytical tool to assess risks across proprietary trading desks. VaR is an estimate of the potential losses arising in a portfolio over a specified time horizon due to adverse changes in underlying market factors. The Bank calculates its one-day VaR at a 99% confidence interval mainly using Monte Carlo Simulations approach across its trading portfolio and open FX position. VaR results are highly dependent on assumptions around input variables used in the model and also VaR does not provide the 'worst case' possible loss.

Being a statistical technique, VaR is known to have limitations and therefore its interpretation needs to be further supplemented by other limits, sensitivity triggers or stress tests. Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

As of 31 December 2020 the 99% 1-day VaR was estimated at USD 1.76 million (31 December 2019: USD 7.06 million) for the bank wide market risk positions (stemming mainly from proprietary trading in interest rates products, equities and FX net open position). The bank's VaR model considers FX risk in all currencies, including GCC pegged currencies except USD and AED.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Libor transition

In light of international developments around discontinuation of use of London Interbank Offer Rate (LIBOR) in the financial industry, the Group has commenced its efforts to transition away from LIBOR to Alternate Reference Rates (ARRs). The Financial Conduct Authority (FCA) in the UK, that oversees LIBOR, has advised that it will not compel panel bank to contribute interest rates for LIBOR calculation beyond 31 December 2021, thereby leading to cessation of LIBOR in its current form. LIBOR is the most commonly referenced interest rate in financial products such as loans, derivatives, bonds, trade and personal financial products.

The Group has put in place a cross functional program to plan and oversee the approach to LIBOR transition in coordination with international developments. The transition has broad implications for the Group and the Group's stakeholders ranging from legal, financial, technical and operational considerations. The Group expects to commence engaging relevant stakeholders at relevant points over the course of 2021.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Interest rate risk management

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial assets and liabilities to different extents. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities repricing at different times.

The Group uses simulation-modelling tools to measure and monitor interest rate sensitivity. The results are analysed and monitored by the Assets and Liabilities Committee ("ALCO"). Since majority of the Group's assets and liabilities are floating rate, deposits and loans generally are repriced within a short period of each other providing a natural hedge, which reduces interest rate risk exposure. Moreover, the majority of the Group's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

The impact of 50 basis points sudden movement in benchmark interest rate on net interest income over a 12 months period as at 31 December 2020 would be a decrease in net interest income by -4.0% (in case of decrease of interest rates) and would have been an increase in net interest income by +3.5% (in case of increase of interest rates) [31 December 2019: -4.2% and +4.1%] respectively.

During the year ended 31 December 2020, the effective interest rate on due from banks and certificates of deposits with central banks was 1.4% (31 December 2019: 2.6%), on loans and advances measured at amortised cost 3.9% (31 December 2019: 5.7%), on customers' deposits 1.6% (31 December 2019: 2.1%) and on due to banks (including repurchase agreements) 1.1% (31 December 2019: 2.1%).

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2020							
Assets							
Cash and balances with central banks	8,392,028	2,000,000	2,000,000	-	-	5,549,913	17,941,941
Deposits and balances due from banks	14,328,592	4,158,303	3,804,056	389,681	138,967	5,419,431	28,239,030
Other financial assets measured at fair value	581,385	37,170	2,547,845	937,238	3,190,815	1,144,650	8,439,103
Other financial assets measured at amortised cost	411,012	1,218,138	2,397,772	3,627,965	3,345,767	-	11,000,654
Loans and advances measured at amortised cost	44,142,598	2,244,840	1,873,136	3,433,364	3,919,763	1,672,710	57,286,411
Islamic financing and investment products measured at amortised cost	11,757,598	233,106	169,835	438,141	1,091,407	556,256	14,246,343
Acceptances	-	-	-	-	-	12,767,461	12,767,461
Other assets	-	-	-	-	-	3,478,455	3,478,455
Reinsurance contract assets	-	-	-	-	-	2,891,920	2,891,920
Investment in associate	-	-	-	-	-	20,996	20,996
Investment properties	-	-	-	-	-	449,715	449,715
Property and equipment	-	-	-	-	-	1,466,769	1,466,769
Intangible assets	-	-	-	-	-	294,442	294,442
Total assets	79,613,213	9,891,557	12,792,644	8,826,389	11,686,719	35,712,718	158,523,240

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2020	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	4,963,548	1,994,543	1,782,565	-	-	6,103,724	14,844,380
Repurchase agreements with banks	56,819	25,950	80,273	1,373,681	-	753,000	2,289,723
Customers' deposits	22,251,958	6,771,925	8,094,963	1,911,872	337,025	37,008,230	76,375,973
Islamic customers' deposits	4,307,813	1,800,117	1,344,326	2,090,995	-	2,341,315	11,884,566
Acceptances	-	-	-	-	-	12,767,461	12,767,461
Other liabilities	-	-	-	-	-	5,808,908	5,808,908
Medium-term loans	378,750	1,274,114	603,865	6,799,541	40,088	519,684	9,616,042
Insurance contract liabilities	-	-	-	-	-	4,747,779	4,747,779
Equity attributable to shareholders of the Parent	-	-	-	-	-	19,430,728	19,430,728
Non-controlling interest	-	-	-	-	-	757,680	757,680
Total liabilities and equity	31,958,888	11,866,649	11,905,992	12,176,089	377,113	90,238,509	158,523,240
On balance sheet gap	47,654,324	(1,975,092)	886,653	(3,349,700)	11,309,607	(54,525,792)	-
Off balance sheet gap	(24,013)	24,013	-	-	-	-	-
Cumulative interest rate sensitivity gap	47,630,311	45,679,232	46,565,885	43,216,185	54,525,792	-	-

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2019							
Assets							
Cash and balances with central banks	11,567,286	-	-	-	-	9,372,414	20,939,700
Deposits and balances due from banks	14,252,579	5,951,926	1,996,293	449,010	383	3,915,657	26,565,848
Other financial assets measured at fair value	181,732	275,331	220,714	787,653	1,881,836	1,174,900	4,522,166
Other financial assets measured at amortised cost	1,217,204	447,998	408,761	5,159,305	3,641,885	-	10,875,153
Loans and advances measured at amortised cost	41,650,451	5,434,545	2,143,368	5,372,882	5,665,666	1,443,365	61,710,277
Islamic financing and investment products measured at amortised cost	11,807,432	124,604	228,056	1,034,134	1,015,267	247,264	14,456,757
Acceptances	-	-	-	-	-	12,903,083	12,903,083
Other assets	-	-	-	-	-	2,738,265	2,738,265
Reinsurance contract assets	-	-	-	-	-	2,585,918	2,585,918
Investment in associate	-	-	-	-	-	29,355	29,355
Investment properties	-	-	-	-	-	473,591	473,591
Property and equipment	-	-	-	-	-	1,367,993	1,367,993
Intangible assets	-	-	-	-	-	262,877	262,877
Total assets	80,676,684	12,234,404	4,997,192	12,802,984	12,205,037	36,514,682	159,430,983

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Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2019	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	4,696,741	1,341,611	1,136,905	-	-	4,009,239	11,184,496
Repurchase agreements with banks	377,572	710,965	-	-	-	-	1,088,537
Customers' deposits	24,095,523	9,370,265	11,658,406	2,218,928	388,010	28,708,440	76,439,572
Islamic customers' deposits	6,123,879	1,367,784	729,859	4,478,684	1,300	1,827,755	14,529,261
Acceptances	-	-	-	-	-	12,903,083	12,903,083
Other liabilities	-	-	-	-	-	4,950,558	4,950,558
Medium-term loans	1,651,848	1,810,574	944,430	6,906,205	37,447	488,253	11,838,757
Insurance contract liabilities	-	-	-	-	-	4,253,789	4,253,789
Equity attributable to shareholders of the Parent	-	-	-	-	-	21,532,582	21,532,582
Non-controlling interest	-	-	-	-	-	710,348	710,348
Total liabilities and equity	36,945,563	14,601,199	14,469,600	13,603,817	426,757	79,384,047	159,430,983
On balance sheet gap	43,731,121	(2,366,795)	(9,472,408)	(800,833)	11,778,280	(42,869,365)	-
Off balance sheet gap	(873,724)	749,120	96,540	30,640	(2,576)	-	-
Cumulative interest rate sensitivity gap	42,857,397	41,239,722	31,863,854	31,093,661	42,869,365	-	-

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Currency risk management

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored on a regular basis. The Group's exposures on 31 December are as follows:

	31 December 2020			31 December 2019		
	Net spot position AED'000	**Net Forward position AED'000**	**Net Position AED'000**	Net spot position AED'000	Net Forward position AED'000	Net Position AED'000
U.S. Dollars	**5,006,141**	**(4,498,538)**	**507,603**	15,195,469	(10,245,720)	4,949,749
Qatari Riyals	**(162,513)**	**(12,400)**	**(174,913)**	1,185,710	(191,499)	994,211
Pound Sterling	**1,310,671**	**(1,328,842)**	**(18,171)**	(797,850)	804,460	6,610
Euro	**324,346**	**(302,379)**	**21,967**	(1,721,979)	1,778,039	56,060
Bahrain Dinar	**159,738**	**(133,993)**	**25,745**	47,168	(1,587)	45,581
Saudi Riyal	**(5,621,881)**	**5,632,255**	**10,374**	(6,116,802)	6,112,073	(4,729)
Japanese Yen	**(1,259,975)**	**1,268,436**	**8,461**	(1,005,238)	1,016,843	11,605
Swiss Francs	**3,550**	**(884)**	**2,666**	153	7	160
Kuwaiti Dinar	**(142,092)**	**(38,596)**	**(180,688)**	236,062	(156,647)	79,415
Chinese Yuan	**(1,348,336)**	**1,351,924**	**3,588**	(888,485)	888,453	(32)
Other	**(173,397)**	**(62,326)**	**(235,723)**	789,736	63,670	853,406
Total	**(1,903,748)**	**1,874,657**	**(29,091)**	6,923,944	68,092	6,992,036

The exchange rate of AED against US Dollar is pegged and the Group's exposure to currency risk is limited to that extent.

Most of the major positions are in currencies that are pegged to the U.S. Dollar; therefore, any change in their exchange rates will have insignificant sensitivity on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

Liquidity risk management

Liquidity risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

The Group's senior management's focus on liquidity management is to:

- better understand the various sources of liquidity risk, particularly under stressed conditions;
- ensure the Group's short term and long term resilience, as measured by the Basel III guidelines, is sufficiently robust to meet realistic adverse scenarios;
- develop effective contingency funding plans to deal with liquidity crises;
- develop liquidity risk tolerance levels within the Internal Capital Adequacy Assessment Process (ICAAP) framework; and
- demonstrate that the bank can survive the closure of one or more funding markets by ensuring that funding can be readily raised from a variety of sources.

In compliance with Basel Committee on Banking Supervision ("BCBS") document titled "Principles for Sound Liquidity Management" and CBUAE "Regulations re Liquidity at Banks" (Circular Number 33/2015) and accompanying Guidance Manual, the Group has established a robust liquidity management framework that is well integrated into the bank-wide risk management process. A primary objective of the liquidity management framework is to ensure with a high degree of confidence that the Bank is in a position to both address its daily liquidity obligations and withstand a period of liquidity stress. In addition to maintaining sound liquidity governance and management practices, the Bank also holds an adequate liquidity cushion comprised of High Quality Liquid Assets ("HQLA") to be in a position to survive such periods of liquidity stress. The Bank's Liquidity Management Framework has two tiers:

1. **Board of Directors oversight** through review and approval of Liquidity Management Policy and definition of Liquidity Risk Tolerance Limits

2. **Strategies, policies and practices developed by the ALCO** to manage liquidity risk in accordance with the Board of directors approved risk tolerance and ensure that the bank maintains sufficient liquidity

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

The Group's Board of Directors (the "Board") bears the ultimate responsibility for liquidity risk management within the bank. The Board members hence are familiar with liquidity risk and how it is managed as well as have a thorough understanding of how other risks including credit, market, operational and reputation risks affect the bank's overall liquidity risk strategy.

Mashreqbank's Head Office ("HO") and International Banking Group ("IBG") Asset and Liability Committees ("ALCO") are responsible for formulating policies for implementing the Board approved liquidity risk appetite. ALCOs have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. ALCOs meets on a regular basis to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio compliance, funding and repricing gaps and general domestic and international economic and financial market conditions. ALCOs determines the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity position at all locations.

The Asset Liability Management ("ALM") function in the Group is then responsible for implementing the ALCO policies. In this regard, the following policies, procedures and systems have been implemented:

The Head Office ALCO comprises of the Chief Executive Officer, the Head of Corporate Affairs, the Head of Retail Banking Group, the Head of Corporate Banking Group, Chief Risk Officer, Chief Credit Officer, the Head of International Banking and the Head of Treasury & Capital Markets.

The IBG ALCO comprises of Head of International Banking, Head of Retail Banking, Chief Risk Officer, Head of Treasury & Capital Markets, Funding Centre, Finance and representatives from respective international locations.

a) Maintenance of Adequate HQLA ("High Quality Liquid Assets") cushion

The Bank holds a portfolio of HQLA aligned with the established risk tolerance of the bank, which means at a minimum it is sufficient to meet all regulatory ratios under normal operating conditions, and enough to meet the liquidity needs under stressed conditions as estimated by the Stress tests.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

b) Gap limits

The minimum size of net placements in highly liquid money market instruments is decided by ALCO based on factors including size of the balance sheet, asset growth plans and liquidity outlook.

The Money Book deployments are also required to adhere to gap limits, to ensure that the bank is in a position to meet a range of liquidity needs, including longer term structural, short term and intraday.

c) Forward looking Funding Plan ensuring effective diversification in the sources and tenor of funding

Mashreqbank develops its funding plan as part of its annual planning exercise. The plan places significant emphasis on diversifying the funding sources and maintaining market access to different sources of funding.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, as of 31 December 2020 has an outstanding balance of AED 9.62 billion (31 December 2019: AED 11.84 billion) [Note 19] in medium-term loans. The Bank also established a Certificate of Deposit (CD) programme through its London branch in 2014 and Hong Kong Branch in 2019.

d) Stress Testing for a variety of short-term and protracted institution-specific and market-wide stress scenarios

Stress tests enable the bank to analyze the impact of stress scenarios on its liquidity position at entity level and business lines. The stress scenarios have been designed to incorporate the major funding and market liquidity risks to which the bank is exposed. ALCO and the Board reviews the bank's choice of scenarios and related assumptions as well as the results of the stress tests.

e) Contingency Funding Plan outlining the Bank's step by step response to Liquidity contingency situations of different magnitudes

Mashreqbank has a formal contingency funding plan ("CFP"), which is updated, reviewed and approved by the HO ALCO and the Board on an annual basis.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

f) FTP Framework for allocating liquidity costs, benefits and risks to all business activities

Mashreqbank has a well-developed FTP policy and system that aims to create transparency in profitability and insulate Business Units from interest rate risk.

g) Regular Internal as well as CBUAE audits focused on HQLA cushion and Liquidity management policies and procedures

Mashreqbank's liquidity policies, procedures and systems are subject to end to end review by internal audit as well as by the CBUAE.

The Central bank of UAE through its circular no. 33/2015 dated 27 May 2015 announced Regulations regarding Liquidity at Banks followed by a Guidance Manual. The above mentioned regulations introduced a new Liquidity ratio called Eligible Liquid Assets ratio ("ELAR") applicable from 1 July 2015 as well as the intention to start the transition to the Basel III Liquidity standards from 1 January 2016. To monitor and manage liquidity risk, the Group uses various indicators including the regulatory ratios of Advances to Stable Resources ("ASRR") and the recently implemented ELAR. Other indicators include loans and advances to customers' deposits, liquid assets to total assets, deposit concentration risk indicators, and limits for liquidity gaps. Any breach of any tolerance level needs to be reported to ALCO and remedied within a short period.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2020 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	13,941,941	2,000,000	2,000,000	-	-	17,941,941
Deposits and balances due from banks	18,949,322	3,467,761	4,951,682	870,265	-	28,239,030
Other financial assets measured at fair value	1,153,708	37,170	2,547,845	937,238	3,763,142	8,439,103
Other financial assets measured at amortised cost	411,012	1,233,765	2,396,924	3,626,681	3,332,272	11,000,654
Loans and advances measured at amortised cost	18,822,621	4,143,633	4,078,018	15,692,258	14,549,881	57,286,411
Islamic financing and investment products measured at amortised cost	5,932,170	1,314,330	400,708	2,588,022	4,011,113	14,246,343
Acceptances	2,816,593	3,876,726	5,768,024	306,118	-	12,767,461
Other assets	2,039,170	250,057	864,649	137,428	187,151	3,478,455
Reinsurance contract assets	795,598	502,291	583,966	965,161	44,904	2,891,920
Investment in associate	-	-	-	-	20,996	20,996
Investment properties	-	-	-	-	449,715	449,715
Property and equipment	-	-	-	-	1,466,769	1,466,769
Intangible assets	-	-	-	-	294,442	294,442
Total assets	64,862,135	16,825,733	23,591,816	25,123,171	28,120,385	158,523,240

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	11,067,272	1,994,544	1,782,564	-	-	14,844,380
Repurchase agreements with banks	809,819	25,950	80,273	1,373,681	-	2,289,723
Customers' deposits	59,164,753	6,895,909	8,028,747	1,930,771	355,793	76,375,973
Islamic customers' deposits	6,609,923	1,800,117	1,383,530	2,090,996	-	11,884,566
Acceptances	2,816,593	3,876,726	5,768,024	306,118	-	12,767,461
Other liabilities	4,273,745	350,012	696,971	357,251	130,929	5,808,908
Medium-term loans	347,374	1,274,114	603,865	7,350,602	40,087	9,616,042
Insurance contract liabilities	1,424,304	787,458	826,343	1,270,167	439,507	4,747,779
Equity attributable to shareholders of the Parent	-	-	-	-	19,430,728	19,430,728
Non-controlling interest	-	-	-	-	757,680	757,680
Total liabilities and equity	86,513,783	17,004,830	19,170,317	14,679,586	21,154,724	158,523,240
Guarantees	7,379,488	2,384,489	7,274,352	10,154,237	13,077,681	40,270,247
Letters of credit	5,395,946	1,835,813	1,452,649	551,193	-	9,235,601
Total	12,775,434	4,220,302	8,727,001	10,705,430	13,077,681	49,505,848

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2019 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	20,939,242	-	458	-	-	20,939,700
Deposits and balances due from banks	16,878,597	5,322,200	3,233,051	962,208	169,792	26,565,848
Other financial assets measured at fair value	758,792	275,361	221,005	787,822	2,479,186	4,522,166
Other financial assets measured at amortised cost	1,209,720	468,749	408,761	5,159,305	3,628,618	10,875,153
Loans and advances measured at amortised cost	18,553,883	7,696,357	3,697,801	17,394,159	14,368,077	61,710,277
Islamic financing and investment products measured at amortised cost	6,359,711	1,679,014	405,699	2,292,989	3,719,344	14,456,757
Acceptances	1,213,171	3,045,453	8,415,774	228,685	-	12,903,083
Other assets	2,084,518	208,537	-	287,528	157,682	2,738,265
Reinsurance contract assets	-	-	2,555,420	30,498	-	2,585,918
Investment in associate	-	-	-	-	29,355	29,355
Investment properties	-	-	-	-	473,591	473,591
Property and equipment	-	-	-	-	1,367,993	1,367,993
Intangible assets	-	-	-	-	262,876	262,876
Total assets	67,997,634	18,695,671	18,937,969	27,143,194	26,656,515	159,430,983

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

Liabilities and equity	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Deposits and balances due to banks	8,652,705	1,341,611	1,136,905	53,275	-	11,184,496
Repurchase agreements with banks	377,572	710,965	-	-	-	1,088,537
Customers' deposits	51,827,308	9,645,635	12,017,534	2,559,960	389,135	76,439,572
Islamic customers' deposits	7,951,633	1,367,785	729,859	4,478,684	1,300	14,529,261
Acceptances	1,213,171	3,045,453	8,415,774	228,685	-	12,903,083
Other liabilities	3,351,440	617,665	438,711	281,880	260,862	4,950,558
Medium-term loans	1,615,542	1,810,574	982,405	7,392,789	37,447	11,838,757
Insurance contract liabilities	-	-	3,748,666	505,123	-	4,253,789
Equity attributable to shareholders of the Parent	-	-	-	-	21,532,582	21,532,582
Non-controlling interest	-	-	-	-	710,348	710,348
Total liabilities and equity	74,989,371	18,539,688	27,469,854	15,500,396	22,931,674	159,430,983
Guarantees	6,262,848	3,219,797	6,285,102	13,149,328	15,005,134	43,922,209
Letters of credit	4,156,613	1,498,968	926,690	1,263,275	-	7,845,546
Total	10,419,461	4,718,765	7,211,792	14,412,603	15,005,134	51,767,755

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile of Group's liabilities based on contractual undiscounted repayment obligations as at 31 December 2020.

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	11,067,272	1,994,544	1,782,564	-	-	14,844,380
Repurchase agreements with banks	809,819	25,950	80,273	1,373,681	-	2,289,723
Customers' deposits	59,267,776	6,953,113	8,092,559	2,478,748	369,086	77,161,282
Islamic customers' deposits	6,704,920	1,921,464	1,508,680	2,094,491	-	12,229,555
Acceptances	2,816,593	3,876,726	5,768,024	306,118	-	12,767,461
Other liabilities	3,636,540	350,012	696,971	357,251	130,929	5,171,703
Medium-term loans	348,671	1,280,771	681,984	7,355,207	40,088	9,706,721
Insurance contract liabilities	1,424,304	787,458	826,343	1,270,167	439,507	4,747,779
Equity attributable to shareholders of the Parent	-	-	-	-	19,430,728	19,430,728
Non-controlling interest	-	-	-	-	757,680	757,680
Total liabilities and equity	86,075,895	17,190,038	19,437,398	15,235,663	21,168,018	159,107,012

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile of Group's liabilities based on contractual undiscounted repayment obligations as at 31 December 2019.

Liabilities and equity	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Deposits and balances due to banks	8,652,705	1,341,611	1,136,905	53,275	-	11,184,496
Repurchase agreements with banks	377,572	710,965	-	-	-	1,088,537
Customers' deposits	52,034,818	9,863,969	12,334,677	2,923,679	412,639	77,569,782
Islamic customers' deposits	8,080,024	1,382,141	747,961	4,771,151	1,580	14,982,857
Acceptances	1,213,171	3,045,453	8,415,774	228,685	-	12,903,083
Other liabilities	3,351,440	617,665	438,711	281,880	260,862	4,950,558
Medium-term loans	1,659,656	1,819,814	1,034,426	8,283,851	50,939	12,848,686
Insurance contract liabilities	-	-	3,748,666	505,123	-	4,253,789
Equity attributable to shareholders of the Parent	-	-	-	-	21,532,582	21,532,582
Non-controlling interest	-	-	-	-	710,348	710,348
Total liabilities and equity	75,369,386	18,781,618	27,857,120	17,047,644	22,968,950	162,024,718

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

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 nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.
The Group manages 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.

The distribution of insurance contract liabilities and reinsurance contract assets as at 31 December 2020 and 31 December 2019 is as follows:

	2020	2019
	AED'000	AED'000
Insurance contract liabilities		
UAE	**4,382,374**	3,805,193
Other Middle East countries	**365,405**	448,596
	4,747,779	4,253,789
Reinsurance contract assets		
UAE	**2,623,959**	2,257,168
Other Middle East countries	**267,961**	328,750
	2,891,920	2,585,918

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Insurance Risk (continued)

Frequency and Severity of Claims

The Group has the right not to renew individual policies, to re-price the risk, to impose deductibles and to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Group's strategy limits the total exposure to any one territory and the exposure to any one industry.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Insurance Risk (continued)

Sources of Uncertainty in the Estimation of Future Claim Payments

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. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The amount of insurance claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period. 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.

Assuming all the other factors remained constant; an impact of an increase / decrease of 1% in claims will result in corresponding increase/ decrease in net claims incurred by AED 16 million (2019: AED 16 million).

COVID-19 impact on insurance subsidiary of the Group

The Bank's insurance subsidiary ("subsidiary") assessed the impact of Covid-19 on business continuity, claims and reserving, control environment, credit risk, fair value of investment properties (refer to Note 11), impairment of financial investments measured at amortised cost, liquidity and solvency as explained below.

The subsidiary has enabled remote connectivity for 95% of its employees as part of its business continuity management initiative to ensure that there is no interruption to client servicing and operations. This has resulted in the subsidiary delivering service level commitments to its customers across multiple lines of business.

The subsidiary mainly noticed an increase in Health Care claims and Business Interruption claims due to COVID-19. The subsidiary is monitoring the loss experience and has appropriately enhanced its technical reserves as at 31 December 2020. The impact on life insurance was minimal as of the year end.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Insurance Risk (continued)

COVID-19 impact on insurance subsidiary of the Group

Since 2019, the subsidiary has developed a robust risk appetite framework and capital thresholds based on the pandemic risk and other risks stress scenarios. Having considered the impact of COVID-19, the subsidiary reassessed its control environment around fraud and information security to ensure adequate controls are in place and conducts more regular reviews on its reinsurers in relation to the counterparty credit ratings, financial metrics, credit outlook and changes to their structures, if any. Also, the subsidiary has updated its reinsurer security list in order to address the impact of COVID-19. The current security list has more than 92% of "A" rated reinsurance securities.

In parallel, the subsidiary continues to have a robust collection and credit control process. Further enhancement and development to strengthen the processes and credit controls have resulted in an efficient receivable management and reduced the credit cycle. Hence, despite the uncertain economic conditions, the subsidiary continued to have robust collections throughout the year. Also, the measures taken above have contributed to minimize the impact on the impairment provision recognised during the year.

Similarly, the subsidiary's investment portfolio measured at amortised cost has been assessed using a robust ECL model with updated inputs as of the reporting date and based on the results, the subsidiary had taken adequate provisions for impairment losses. These are not material as at 31 December 2020.

The liquidity position of the subsidiary remains strong. Furthermore, the subsidiary has carried out stress testing to assess the resilience of its solvency compliance, which also remains strong after considering the impact of the shocks. As the situation continues to develop, the subsidiary will continue to monitor the situation closely and take the necessary actions.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Compliance Risk

Compliance risk is the risk of an activity not being conducted in line with the applicable laws and regulations leading to reputational and/or financial losses. The Group manages compliance risk through a compliance function which is responsible for monitoring compliance of laws and regulations across the various jurisdictions in which the Group operates.

In 2015, the Bank became aware that certain US dollar payment processing activities involving Sudan may have potentially breached US sanction laws in effect at the time. The Bank has been proactively cooperating with the UAE and the US regulators in this regard and has appointed external legal advisors to assist in the review of these transactions, which occurred prior to March 2009, including compliance with US sanction laws as well as its own compliance processes. In 2018, the Bank formally submitted the findings of the review to the regulators in both the UAE and the US. The US regulators have reviewed the Bank's submission and discussions have been ongoing with the US regulators. Certain US regulators have concluded their reviews without levying any penalties and the bank is currently in negotiation in this respect with other US regulators. The Bank believes that given the sensitivity of this matter the foregoing disclosure adequately describes the current status of the negotiations with the concerned regulators.

The Group, on a continuous basis, identifies and assesses such risks and recognizes provisions, in consultation with its legal counsel, in accordance with note 3.13.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2019.

Fair value of the Group's financial assets that are measured at fair value on recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined:

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	2020	2019				
	AED'000	AED'000				
Other financial assets measured at FVTPL						
Quoted debt investments	**19,431**	196,516	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	**6,719**	14,990	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**796,240**	679,779	Level 2	Based on the recent similar transaction in market	None	Not Applicable
Mutual and other funds	**629,865**	599,310	Level 2	Quoted prices in secondary market.	None	Not Applicable
Unquoted equity investments	**1,112**	245	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	1,453,367	1,490,840				

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	2020	2019				
	AED'000	AED'000				
Other financial assets measured at FVTOCI						
Quoted equity investments	**459,821**	501,480	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**560,592**	561,693	Level 3	Based on the recent similar transaction in market	None	Not Applicable
Quoted debt investments	**5,910,374**	1,904,560	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	**54,949**	63,593	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
	6,985,736	3,031,326				
	8,439,103	4,522,166				

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Fair value measurements (continued)

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

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 FVTPL

	2020	2019
	AED'000	AED'000
At 1 January	**245**	55,315
Purchases	**2,505**	-
Disposals	**(1,646)**	-
Change in fair value	**8**	(55,070)
At 31 December	**1,112**	245

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTOCI

	2020	2019
	AED'000	AED'000
At 1 January	**625,286**	192,869
Purchases	**-**	563,842
Disposals/matured	**(10,215)**	(153,087)
Change in fair value	**470**	21,662
At 31 December	**615,541**	625,286

All gain and losses included in consolidated statement of comprehensive income relate to unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values as these are substantially short term in nature and carry market rates of interest.

	Carrying amount AED'000	Fair value Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2020					
Financial assets:					
Other financial assets measured at amortised cost	**11,000,654**	**7,600,395**	**1,556,552**	**2,169,181**	**11,326,128**
31 December 2019					
Financial assets:					
Other financial assets measured at amortised cost	10,875,153	8,628,850	1,140,947	1,327,665	11,097,462

	Carrying Amount AED'000	Fair value Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
31 December 2020					
Financial liabilities					
Medium-term notes	**9,616,042**	**5,558,668**	**-**	**4,133,034**	**9,691,702**
31 December 2019					
Financial liabilities					
Medium-term notes	11,838,757	10,034,486	-	1,970,522	12,005,008

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 1% increase or decrease as at 31 December 2020 and 31 December 2019:

	Reflected in consolidated statement of profit or loss		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
31 December 2020				
Other financial assets measured at fair value	**14,534**	**(14,534)**	**69,857**	**(69,857)**
Derivatives	**1,560**	**(1,560)**	**636**	**(636)**
31 December 2019				
Other financial assets measured at fair value	14,908	(14,908)	30,313	(30,313)
Derivatives	546	(546)	58	(58)

Majority of the derivative financial instruments are back-to-back; therefore, any change to the fair value of the derivatives resulting from price input changes will have insignificant impact on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

44 Foreign restricted assets

Net assets equivalent to AED 213 million as at 31 December 2020 (31 December 2019: AED 214 million) maintained by certain branches of the Bank, operating outside the UAE, are subject to exchange control regulations of the countries in which these branches operate.

45 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2020.

46 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2020 were approved by the Board of Directors and authorised for issue on 10 February 2021.

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