

Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2019

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 2019

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Mashreqbank PSC Group

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 2019.

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 2019 are set out in the accompanying consolidated financial statements.

Dividend

The Board of Directors has proposed 40% Cash Dividend at their meeting held on 3 February 2020.

Directors

The following are the Directors of the Bank as at 31 December 2019

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 2019 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors

H.E. Abdul Aziz Abdulla Al Ghurair

Chairman

3 February 2020



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 2019, 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 2019;
- 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 a summary of significant accounting policies.

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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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.

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Douglas O'Mahony, Rami Sarhan, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy



Independent auditor's report to the shareholders of Mashreqbank PSC Group (continued)

Our audit approach

Key Audit Matters	● Measurement of Expected Credit Losses
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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
<i>Measurement of Expected Credit Losses</i> The Group applies ECL on all its financial instruments 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 2019: ➤ 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 specialists 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 instruments. ● Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.



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 in the staging criteria applied to the financial instruments as well as in developing ECL models 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 for each category level. ➤ We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9.



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, 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, related safeguards.

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:

- 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 2019;
- 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)

- Note 32 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2019; 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 2019 any of the applicable provisions of the UAE Federal Law No. (2) of 2015 or in respect of the Bank, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2019.

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
3 February 2020

A handwritten signature in blue ink, reading 'Douglas O'Mahony'.

Douglas O'Mahony
Registered Auditor Number 834
Place: Dubai, United Arab Emirates

Mashreqbank PSC Group

Consolidated statement of financial position

		As at 31 December			
Notes	2019		2018		
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent	
ASSETS					
Cash and balances with central banks	5	20,939,700	5,700,980	20,147,826	5,485,387
Deposits and balances due from banks	6	26,565,848	7,232,738	23,009,168	6,264,407
Other financial assets measured at fair value	7	4,522,166	1,231,191	1,737,759	473,117
Other financial assets measured at amortised cost	7	10,875,153	2,960,837	11,681,234	3,180,298
Investment in associate		29,355	7,992	-	-
Loans and advances measured at amortised cost	8	61,710,277	16,801,056	56,353,340	15,342,592
Islamic financing and investment products measured at amortised cost	9	14,456,757	3,935,953	12,916,255	3,516,541
Acceptances		12,903,083	3,512,955	9,782,129	2,663,253
Other assets	10	2,738,265	745,512	2,489,095	677,673
Reinsurance contract assets	20	2,585,918	704,034	2,472,798	673,237
Investment properties	12	473,591	128,938	489,885	133,375
Property and equipment	13	1,630,870	444,017	1,481,588	403,373
Total assets		159,430,983	43,406,203	142,561,077	38,813,253
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	14	11,184,496	3,045,057	9,059,963	2,466,638
Repurchase agreements with banks	15	1,088,537	296,362	2,116,677	576,280
Customers' deposits	16	76,439,572	20,811,209	72,521,856	19,744,584
Islamic customers' deposits	17	14,529,261	3,955,693	10,696,707	2,912,254
Acceptances		12,903,083	3,512,955	9,782,129	2,663,253
Other liabilities	18	4,950,558	1,347,824	5,355,506	1,458,075
Medium-term loans	19	11,838,757	3,223,185	8,185,390	2,228,530
Insurance contract liabilities	20	4,253,789	1,158,124	4,077,160	1,110,035
Total liabilities		137,188,053	37,350,409	121,795,388	33,159,649
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)	907,714	247,132	903,877	246,087
General reserve	21(c)	312,000	84,944	312,000	84,944
Currency translation reserve	21(d)	(88,720)	(24,155)	(81,380)	(22,156)
Investments revaluation reserve	21(e)	(273,595)	(74,488)	(242,733)	(66,086)
Cash flow hedge reserve	21(f)	4,292	1,168	(4,124)	(1,123)
Retained earnings		18,895,583	5,144,455	17,481,156	4,759,367
Equity attributable to owners of the Parent		21,532,582	5,862,396	20,144,104	5,484,373
Non-controlling interests	22	710,348	193,398	621,585	169,231
Total equity		22,242,930	6,055,794	20,765,689	5,653,604
Total liabilities and equity		159,430,983	43,406,203	142,561,077	38,813,253



Abdul Aziz Abdulla Al Ghurair
Chairman



Ahmed Abdelaziz
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

	Notes	For the year ended 31 December			
		2019		2018	
		AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Interest income	24	5,881,414	1,601,256	5,427,063	1,477,556
Income from Islamic financing and investment products	25	753,645	205,185	570,568	155,341
Total interest income and income from Islamic financing and investment products		6,635,059	1,806,441	5,997,631	1,632,897
Interest expense	26	(2,617,855)	(712,729)	(2,096,786)	(570,865)
Distribution to depositors – Islamic products	27	(310,048)	(84,413)	(257,783)	(70,183)
Net interest income and income from Islamic products net of distribution to depositors		3,707,156	1,009,299	3,643,062	991,849
Fee and commission income	28	2,903,706	790,554	2,857,563	777,992
Fee and commission expenses	28	(1,538,219)	(418,791)	(1,444,083)	(393,162)
Net fee and commission income		1,365,487	371,763	1,413,480	384,830
Net investment income	29	149,778	40,778	26,528	7,222
Other income, net	30	771,775	210,121	855,218	232,839
Operating income		5,994,196	1,631,961	5,938,288	1,616,740
General and administrative expenses	32	(2,623,103)	(714,158)	(2,618,210)	(712,826)
Operating profit before impairment		3,371,093	917,803	3,320,078	903,914
Allowances for impairment, net	31	(1,212,187)	(330,026)	(1,230,255)	(334,945)
Profit before tax		2,158,906	587,777	2,089,823	568,969
Tax expense		(22,764)	(6,198)	(24,605)	(6,699)
Profit for the year		2,136,142	581,579	2,065,218	562,270
Attributable to:					
Owners of the Parent		2,065,194	562,264	2,060,200	560,904
Non-controlling interests		70,948	19,315	5,018	1,366
		2,136,142	581,579	2,065,218	562,270
Earnings per share	33	AED 11.63	USD 3.17	AED 11.60	USD 3.16

Mashreqbank PSC Group

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2019		2018	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Profit for the year	2,136,142	581,579	2,065,218	562,270
Other comprehensive income/(loss)				
<i>Items that will not be reclassified subsequently to profit or loss:</i>				
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (equity instruments) [Note 7(k)]	65,529	17,841	(66,530)	(18,113)
<i>Items that may be reclassified subsequently to profit or loss:</i>				
Changes in currency translation reserve	(5,917)	(1,611)	(22,829)	(6,215)
Changes in fair value of financial assets measured at fair value through other comprehensive income, net (debt instruments) [Note 7(k)]	(8,061)	(2,195)	(6,093)	(1,659)
Loss on hedging instruments designated as hedges of net investment in foreign operations	(2,759)	(751)	(5,073)	(1,381)
Cash flow hedges - fair value gain/(loss) arising during the year [Note 21(f)]	8,416	2,291	(4,124)	(1,123)
Total other comprehensive income / (loss) for the year	57,208	15,575	(104,649)	(28,491)
Total comprehensive income for the year	2,193,350	597,154	1,960,569	533,779
Attributable to:				
Owners of the Parent	2,104,538	572,974	1,963,686	534,627
Non-controlling interests	88,812	24,180	(3,117)	(848)
	2,193,350	597,154	1,960,569	533,779

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 2018	1,775,308	901,621	312,000	(59,163)	(184,989)	-	17,618,669	20,363,446	762,974	21,126,420
Changes on initial application of IFRS 9	-	-	-	-	-	-	(1,472,905)	(1,472,905)	(126,080)	(1,598,985)
Restated balances as at 1 January 2018	1,775,308	901,621	312,000	(59,163)	(184,989)	-	16,145,764	18,890,541	636,894	19,527,435
Profit for the year ended 31 December 2018	-	-	-	-	-	-	2,060,200	2,060,200	5,018	2,065,218
Other comprehensive loss for the year	-	-	-	(22,217)	(70,173)	(4,124)	-	(96,514)	(8,135)	(104,649)
Total comprehensive income/(loss) for the year	-	-	-	(22,217)	(70,173)	(4,124)	2,060,200	1,963,686	(3,117)	1,960,569
Additional contribution to non-controlling interests	-	-	-	-	-	-	-	-	4,463	4,463
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	12,429	-	(12,429)	-	-	-
Transfer to statutory and legal reserves	-	2,256	-	-	-	-	(2,256)	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710,123)	(710,123)	(16,655)	(726,778)
Balance at 31 December 2018	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 (Note 3.3)	-	-	-	-	-	-	(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 income/ (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

Mashreqbank PSC Group

Consolidated statement of cash flows

	Notes	For the year ended 31 December			
		2019		2018	
		AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from operating activities					
Profit before taxation for the year		2,158,906	587,777	2,089,823	568,969
Adjustments for:					
Depreciation of property and equipment	13	222,716	60,636	154,613	42,094
Allowances for impairment, net	31	1,212,187	330,026	1,230,255	334,946
(Gain)/loss on disposal of property and equipment	30	(8,865)	(2,414)	15,410	4,195
Loss from disposal of investment properties	30	600	163	-	-
Unrealised loss on other financial assets held at FVTPL	29	13,524	3,682	8,302	2,260
Fair value adjustments of investment properties	30	13,244	3,606	27,806	7,570
Net realized gain from sale of other financial assets measured at FVTPL	29	(76,614)	(20,859)	(5,033)	(1,370)
Dividend income from other financial assets measured at FVTOCI	29	(23,758)	(6,468)	(18,146)	(4,940)
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	29	(62,068)	(16,898)	(11,100)	(3,022)
Unrealised loss on derivatives	30	20,260	5,516	3,992	1,087
Operating cash flows before tax paid and changes in operating assets and liabilities		3,470,132	944,767	3,495,922	951,789
Tax paid		(22,764)	(6,198)	(24,605)	(6,699)
Changes in assets and liabilities					
(Increase)/decrease in deposits with central banks		(2,217,619)	(603,762)	2,533,730	689,826
Increase in deposits and balances due from banks maturing after three months		(2,201,971)	(599,502)	(6,974,215)	(1,898,779)
Increase in loans and advances measured at amortised cost		(6,486,591)	(1,766,020)	(4,949,217)	(1,347,459)
Increase in Islamic financing and investment products measured at amortised cost		(1,600,851)	(435,843)	(3,750,692)	(1,021,152)
(Increase)/decrease in reinsurance assets		(113,120)	(30,798)	45,461	12,377
(Increase)/decrease in other assets		(269,203)	(73,292)	268,200	73,019
(Increase)/decrease in financial assets carried at FVTPL		(612,458)	(166,746)	53,995	14,701
(Decrease)/increase in repurchase agreements with banks maturing after three months		(147,444)	(40,143)	858,410	233,708
Increase in customers' deposits		3,917,716	1,066,626	3,141,647	855,335
Increase in Islamic customers' deposits		3,832,554	1,043,440	4,015,832	1,093,338
Increase in deposits and balances due to banks maturing after three months		453,725	123,530	2,490,002	677,921
Increase/(decrease) in insurance contract liabilities		176,629	48,088	(76,087)	(20,715)
(Decrease)/ increase in other liabilities		(311,102)	(84,700)	1,107,526	301,532
Net cash (used in) /generated from operating activities		(2,132,367)	(580,553)	2,235,909	608,742

Mashreqbank PSC Group

Consolidated statement of cash flows (continued)

	Notes	For the year ended 31 December			
		2019		2018	
		AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	13	(454,406)	(123,715)	(312,474)	(85,073)
Proceeds from sale of property and equipment		9,781	2,663	810	221
Proceeds from sale of investment properties		2,450	667	-	-
Net increase in non-trading investments		(1,246,269)	(339,305)	567,173	154,417
Dividend income from other financial assets measured at FVTOCI	29	23,758	6,468	18,146	4,940
Net cash (used in)/generated from investing activities		(1,664,686)	(453,222)	273,655	74,505
Cash flows from financing activities					
Dividend paid		(710,123)	(193,336)	(726,778)	(197,870)
Medium term notes issued		9,972,949	2,715,205	6,976,005	1,899,266
Medium term notes redeemed		(6,319,581)	(1,720,550)	(5,016,647)	(1,365,817)
Additional contribution to non-controlling interests		-	-	4,463	1,215
Net cash generated from financing activities		2,943,245	801,319	1,237,043	336,794
Net (decrease)/increase in cash and cash equivalents		(853,808)	(232,455)	3,746,607	1,020,041
Net foreign exchange difference		(7,340)	(1,998)	(22,217)	(6,050)
Cash and cash equivalents at 1 January		16,203,765	4,411,589	12,479,375	3,397,598
Cash and cash equivalents at 31 December	35	15,342,617	4,177,136	16,203,765	4,411,589

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019

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 2019, 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.

- **IFRS 16, ‘Leases’** - This standard replaces the current guidance in IAS 17 and is a far reaching change in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a ‘right-of-use asset’ for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

For lessors, the accounting stays remains mainly unchanged. However, as the IASB has updated the guidance on the definition of a lease (as well as the guidance on the combination and separation of contracts), lessors will also be affected by the new standard. At the very least, the new accounting model for lessees is expected to impact negotiations between lessors and lessees. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The impact of IFRS 16 on the consolidated financial statements of the Group has been disclosed in Note 3.3.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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)

- **IFRIC 23, ‘Uncertainty over Income Tax Treatments’** – The interpretation address the determination of taxable profit (tax loss) tax bases, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers
 - Whether tax treatments should be considered collectively
 - Assumptions for taxation authorities
 - The determination of taxable profit (tax loss), tax bases, unused tax losses, and tax rates
 - The effect of changes in facts and circumstances
- **Amendment to IFRS 9, Financial instruments’, on prepayment features with negative compensation and modification of financial liabilities** - This amendment confirmed two points: (1) that reasonable compensation for prepayments can be both negative or positive cash flows when considering whether a financial asset solely has cash flows that are principal and interest and (2) that when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised immediately in profit or loss. The gain or loss is calculated as the difference between the original contractual cash flows and the modified cash flows discounted at the original effective interest rate. This means that the difference cannot be spread over the remaining life of the instrument which may be a change in practice from IAS 39.

Notes to the consolidated financial statements for the year ended 31 December 2019 (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
Amendment 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.	1 January 2020
Amendments to IAS 1 and IAS 8 on the definition of material - 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.	1 January 2020
Amendments to IFRS 3, ‘definition of a business’-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.	1 January 2020

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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)

	Effective for annual periods beginning on or after
New standards, amendments and interpretations	

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 2022
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The standard applies to annual periods beginning on or after 1 January 2022, 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.

The Group is currently assessing the impact of the above new standard on the consolidated financial statements.

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 2019 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 2019 (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”).

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for debt securities, equity shares, units in mutual funds, investment properties and derivatives that are classified as either fair value through profit and loss (FVTPL) or fair value through other comprehensive income (FVTOCI) that 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.

3.3 Changes in accounting policies

The Group has adopted IFRS 16 Leases retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening statement of financial position on 1 January 2019. The new accounting policies are disclosed in note 3.7.

On adoption of IFRS 16, the group recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 1 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 3.3%.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying IAS 17 and Interpretation 4 Determining whether an Arrangement contains a Lease.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.3 Changes in accounting policies (continued)

Measurement of lease liabilities

	AED'000
Operating lease commitments disclosed as at 31 December 2018	108,266
Adjustment for change in accounting policy	17,650
Lease liability as at 1 January 2019	<u>125,916</u>

Measurement of right-of-use assets

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. Other right-of use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position as at 31 December 2018.

Adjustments recognised in the balance sheet on 1 January 2019

The change in accounting policy affected the following items in the balance sheet on 1 January 2019:

- right-of-use assets – increase by AED 138 million
- prepayments – decrease by AED 18 million
- lease liabilities – increase by AED 126 million.

The net impact on retained earnings on 1 January 2019 was a decrease of AED 6 million.

Lessor accounting

The group did not need to make any adjustments to the accounting for assets held as lessor under operating leases (see note 3.7) as a result of the adoption of IFRS 16.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.4 Basis of consolidation

The principal accounting policies adopted in the preparation of these consolidated financial statements are set out below:

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 arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns and previous shareholders' meetings.

Consolidation of a subsidiary begins when the Bank obtains control over the subsidiary and/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 2019 (continued)

3 Summary of significant accounting policies (continued)

3.4 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 2019 (continued)

3 Summary of significant accounting policies (continued)

3.4 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.

3.5 Goodwill

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.4 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 2019 (continued)

3 Summary of significant accounting policies (continued)

3.6 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 2019 (continued)

3 Summary of significant accounting policies (continued)

3.6 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.

3.7 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.

Until the 2018 financial year, leases of branches, offices and premises for ATMs were classified as either finance leases or operating leases. Payments made under operating leases (net of interest received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.7 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

Accounting policy before 1 January 2019

Leases of property and equipment where the group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the 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 property and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the group will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.8 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.

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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.8 Foreign currencies (continued)

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.

3.9 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.

3.10 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.10 Investment properties (continued)

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.

3.11 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 – 25
Furniture, fixtures, equipment and vehicles	4 - 10
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, plant 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.

One year after property and equipment are fully depreciated, they are maintained at a net book value of one currency unit by setting off accumulated depreciation against cost.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.11 Property and equipment (continued)

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.

3.12 Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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.

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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

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.

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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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)

- 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.

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').

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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)

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:

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. 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.

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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 (continued)

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.

(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:

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans (continued)

- 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.

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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

Derecognition other than on a modification (continued)

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). 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities (continued)

Derecognition

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

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

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 2019 (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 2019 (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 consolidated statement of profit or loss from that date.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 forecast 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 2019 (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 2019 (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 2019 (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 2019 (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 2019 (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 2019 (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 certain non-interest based banking products, which are approved by its Sharia'h 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) Definitions

The following terms are used in Islamic financing:

Murabaha

An agreement whereby the Group sells to a customer a commodity or an asset, which the Group has purchased and acquired, based on a promise received from the customer to buy the item purchased according to specific terms and conditions. The selling price comprises the cost of the commodity and an agreed profit margin.

Ijara

An agreement whereby the Group acting as a lesser, purchases or constructs an asset for lease according to the customer's request (lessee), based on his promise to lease the asset for an agreed rent and a specific period that could end by transferring the ownership of the leased asset to the lessee.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Istisna'

Istisna' is an agreement whereby 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 assets.

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 Mudarabah profit. The Mudarib is responsible for all losses arising from misconduct, negligence or violation of the conditions of the agreement. In all other instances, the losses are borne by the Rab-al-Mal.

Wakala

An agreement whereby the Group provides a certain sum of money to an agent who invests it according to specific conditions in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(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 2019 (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 2019 (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 2019 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 2019 (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 2019 (continued)

4 Critical accounting judgements and key sources of estimation uncertainty (continued)

4.4 Investment properties

The Group values its investment properties at fair value on the basis of market valuations prepared by independent property consultants. The valuations are based on assumptions which are mainly based on market conditions existing at each reporting date. Therefore, any future change in the market conditions could have an impact on the fair value.

4.5 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

5 Cash and balances with central banks

(a) The analysis of the Group's cash and balances with central banks is as follows:

	2019 AED'000	2018 AED'000
Cash on hand	908,016	919,071
Balances with central banks:		
Current accounts and other balances	10,508,330	8,973,020
Statutory deposits	5,473,354	6,255,735
Certificates of deposit	4,050,000	4,000,000
	<u>20,939,700</u>	<u>20,147,826</u>

(b) The geographical analysis of the cash and balances with central banks is as follows:

	2019 AED'000	2018 AED'000
Within the UAE	11,733,205	12,715,833
Outside the UAE	9,206,495	7,431,993
	<u>20,939,700</u>	<u>20,147,826</u>

(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 accounts and other balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 2.08% (31 December 2018: 2.23%) per annum.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

6 Deposits and balances due from banks

(a) The analysis of the Group's deposits and balances due from banks is as follows:

	2019 AED'000	2018 AED'000
Demand	1,456,009	1,362,012
Overnight	62,441	183,650
Time	25,156,000	21,530,255
	<u>26,674,450</u>	<u>23,075,917</u>
Less: Allowance for impairment	(108,602)	(66,749)
	<u>26,565,848</u>	<u>23,009,168</u>

(b) The above represent deposits and balances due from:

	2019 AED'000	2018 AED'000
Banks within the UAE	5,043,396	3,384,692
Banks outside the UAE	21,631,054	19,691,225
	<u>26,674,450</u>	<u>23,075,917</u>
Less: Allowance for impairment	(108,602)	(66,749)
	<u>26,565,848</u>	<u>23,009,168</u>

(c) Allowance for impairment movement:

	2019 AED'000	2018 AED'000
At beginning of the year	66,749	-
Initial application of IFRS 9	-	78,758
Charge / (reversal) during the year (Note 31)	38,931	(13,068)
Interest in suspense	2,902	1,943
Exchange rate and other adjustments	20	(456)
Written off during the year	-	(428)
At end of the year	<u>108,602</u>	<u>66,749</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

7 Other financial assets

(a) The analysis of the Group's other financial assets as at 31 December is as follows:

	2019 AED'000	2018 AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit and loss (FVTPL)		
Debt securities	876,295	283,013
Equities		
<i>Quoted</i>	14,990	10,752
<i>Unquoted</i>	245	220
Mutual and other funds	599,310	597,921
	<u>1,490,840</u>	<u>891,906</u>
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	2,467,125	296,160
Equities		
<i>Quoted</i>	501,480	356,824
<i>Unquoted</i>	63,593	192,869
	<u>3,032,198</u>	<u>845,853</u>
Less: Allowance for impairment	(872)	-
	<u>3,031,326</u>	<u>845,853</u>
Total other financial assets measured at fair value (A)	<u>4,522,166</u>	<u>1,737,759</u>
(iii) Other financial assets measured at amortised cost		
Debt securities	10,901,518	11,737,563
Less: Allowance for impairment	(26,365)	(56,329)
	<u>10,875,153</u>	<u>11,681,234</u>
Total other financial assets measured at amortised cost (B)	<u>10,875,153</u>	<u>11,681,234</u>
Total other financial assets [(A) +(B)]	<u>15,397,319</u>	<u>13,418,993</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

7 Other financial assets (continued)

(b) The geographic analysis of other financial assets is as follows:

	2019 AED'000	2018 AED'000
Within the UAE	3,168,810	2,149,263
Outside the UAE	12,255,746	11,326,059
	15,424,556	13,475,322
Less: Allowance for impairment	(27,237)	(56,329)
	15,397,319	13,418,993

(c) The analysis of other financial assets by industry sector is as follows:

	2019 AED'000	2018 AED'000
Government and public sector	10,961,051	9,175,952
Commercial and business	1,182,859	951,422
Financial institutions	2,784,506	3,261,847
Other	468,903	29,772
	15,397,319	13,418,993

(d) The movement of the allowance for impairment of other financial assets during the year was as follows:

	2019 AED'000	2018 AED'000
At the beginning of the year	56,329	-
Initial application of IFRS 9	-	20,254
(Reversal) / charge during the year (Note 31)	(31,445)	36,083
Exchange rate and other adjustments	2,353	(8)
At end of the year	27,237	56,329

(e) The fair value of other financial assets measured at amortised cost amounted to AED 11.10 billion as of 31 December 2019 (31 December 2018: AED 11.50 billion) (Note 43).

(f) At 31 December 2019 certain financial assets at amortised cost included in debt securities aggregating to a notional value of AED 1,097 million (fair value: AED 1,119 million) [31 December 2018: notional value AED 1,721 million (fair value: AED 1,693 million)] were collateralised against the repurchased agreements with Banks ("Repo") of AED 1,089 million (31 December 2018: AED 1,503 million) (Note 15).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

7 Other financial assets (continued)

- (g) Other financial assets measured at FVTPL include AED 202 million (31 December 2018: AED 200 million) which represents investment in Makaseb Arab Tigers Fund, Makaseb Income Fund, Mashreq Global and Mashreq Al Islami Income Fund. These funds are managed by the Group and have no fixed maturity or coupon rate and the fair value of these funds is based on the quoted market price.
- (h) As of 31 December 2019, 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 year ended 31 December 2019, dividends received from other financial assets measured at FVTOCI amounting to AED 24 million (31 December 2018: AED 18 million) were recognised as investment income in the consolidated statement of profit or loss (Note 29).
- (j) During the year ended 31 December 2019, change in fair value of other financial assets measured at FVTPL resulted in loss of AED 14 million (31 December 2018: a loss of AED 8 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).
- (k) During the year ended 31 December 2019, change in fair value of other financial assets measured at FVTOCI resulted in a gain of AED 57 million (31 December 2018: a loss of AED 73 million) and was recognised in the consolidated statement of comprehensive income.
- (l) During the year ended 31 December 2019, the Group purchased and disposed equity shares amounted to AED 1,251 million (31 December 2018: AED 1,201 million) and AED 1,304 million (31 December 2018: AED 1,198 million) respectively.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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:

	2019 AED'000	2018 AED'000
Loans	57,183,573	53,005,765
Overdrafts	5,825,415	3,942,492
Credit cards	1,887,551	2,247,672
Others	658,109	637,994
Total	65,554,648	59,833,923
Less: Allowance for impairment	(3,844,371)	(3,480,583)
	<u>61,710,277</u>	<u>56,353,340</u>

(b) The analysis of loans and advances measured at amortised cost by industry sector is as follows:

	2019 AED'000	2018 AED'000
Manufacturing	9,402,836	6,788,348
Construction	6,956,626	5,920,478
Trade	12,296,598	10,671,455
Transport and communication	3,265,643	3,779,934
Services	6,979,080	5,701,896
Financial institutions	831,689	1,043,886
Personal	8,176,471	8,754,351
Residential mortgage	5,505,912	5,654,351
Government and related enterprises	12,139,793	11,519,224
	65,554,648	59,833,923
Less: Allowance for impairment	(3,844,371)	(3,480,583)
	<u>61,710,277</u>	<u>56,353,340</u>

(c) 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 2019 and 2018, legal proceedings are pursued for some of these accounts by the Group in the normal course of business.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

8 Loans and advances measured at amortised cost (continued)

- (d) The movement during the year of the allowance for impairment and suspended interest of loans and advances measured at amortised cost was as follows:

	2019 AED'000	2018 AED'000
At beginning of the year	3,480,583	3,069,205
Initial application of IFRS 9	-	907,731
Charge during the year (Note 31)	830,925	669,752
Interest in suspense	147,990	281,532
Exchange rate and other adjustments	31,244	2,468
Written off during the year	(646,371)	(1,450,105)
At end of the year	<u>3,844,371</u>	<u>3,480,583</u>

- (e) 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.

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:

	2019 AED'000	2018 AED'000
<u>Financing</u>		
Murabaha	8,798,444	7,181,840
Ijara	5,824,623	6,036,980
	<u>14,623,067</u>	<u>13,218,820</u>
<u>Investment</u>		
Mudaraba	-	18,466
Wakala	271,835	10,948
	<u>271,835</u>	<u>29,414</u>
Total	14,894,902	13,248,234
Less: Unearned income	(309,555)	(192,923)
Allowance for impairment	(128,590)	(139,056)
	<u>14,456,757</u>	<u>12,916,255</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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:

	2019 AED'000	2018 AED'000
Manufacturing	634,654	520,900
Construction	4,003,630	3,124,317
Trade	1,832,296	1,464,250
Transport and communication	312,759	345,286
Services	3,230,516	4,238,157
Financial institutions	1,079,112	734,464
Personal	1,231,533	979,057
Residential mortgage	1,158,522	1,142,214
Government and related enterprises	1,411,880	699,589
Total	14,894,902	13,248,234
Less: Unearned income	(309,555)	(192,923)
Allowance for impairment	(128,590)	(139,056)
	<u>14,456,757</u>	<u>12,916,255</u>

(c) Allowance for impairment movement:

	2019 AED'000	2018 AED'000
At beginning of the year	139,056	117,127
Initial application of IFRS 9	-	21,877
Charge during the year (Note 31)	47,611	122,556
Profit in suspense	2,716	158
Exchange rate and other adjustments	(10,000)	(50)
Written off during the year	(50,793)	(122,612)
At end of the year	<u>128,590</u>	<u>139,056</u>

(d) 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

10 Other assets

	2019 AED'000	2018 AED'000
Interest receivable	318,671	195,457
Property acquired in settlement of debts*	110,196	37,101
Prepayments	80,252	139,464
Positive fair value of derivatives (Note 41)	667,381	557,290
Insurance related receivables (net) **	599,005	668,498
Insurance related deferred acquisition costs	132,200	156,672
Credit card related receivables	245,185	97,092
Taxes paid in advance	108,509	150,835
Goodwill (Note 11)	9,869	10,896
Commission / income receivable	44,252	31,544
Advances to suppliers/ vendors	119,368	223,150
Others	303,377	221,096
	<u>2,738,265</u>	<u>2,489,095</u>

* As of 31 December 2019, property acquired in settlement of debts includes property with a book value of AED 230 million (31 December 2018: AED 96 million) against which a provision of AED 120 million is held (31 December 2018: AED 59 million). The property is registered in the name of the Chairman of the Bank on trust and for the benefit of the Group.

** As of 31 December 2019, the Group has recorded a provision of AED 458 million (31 December 2018: AED 524 million) against insurance related receivables.

11 Goodwill

The goodwill relates to businesses acquired by Oman Insurance Company P.S.C, a subsidiary of the Bank.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

12 Investment properties

	2019 AED'000	2018 AED'000
At fair value		
At beginning of the year	489,885	517,691
Change in fair value during the year (Note 30)	(13,844)	(27,806)
Disposals during the year	(2,450)	-
At end of the year	<u>473,591</u>	<u>489,885</u>

All of the Group's investment properties are held under freehold interest and located in the UAE.

The fair value of investment properties as at 31 December 2019 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.

There has been no change to the valuation technique during the year.

The fair value of the Group's investment properties is based on observable market inputs, i.e. Level 2.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

13 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 2018	845,900	492,907	487,621	-	208,498	2,034,926
Additions during the year	-	32,552	81,544	-	198,378	312,474
Transfers	-	2,009	8,586	-	(10,595)	-
Disposals/write-offs	(40)	(21,037)	(21,615)	-	(6,814)	(49,506)
At 31 December 2018	845,860	506,431	556,136	-	389,467	2,297,894
Initial application of IFRS 16	-	-	-	234,777	-	234,777
Additions during the year	-	59,808	115,209	18,898	260,491	454,406
Transfers	(211,024)	7,250	140	-	(7,391)	(211,025)
Disposals/write-offs/elimination	(3,333)	(135,054)	(100,253)	(61,549)	-	(300,189)
At 31 December 2019	631,503	438,435	571,232	192,126	642,567	2,475,863
Accumulated depreciation and impairment						
At 1 January 2018	169,520	297,558	224,872	-	-	691,950
Charge for the year (Note 32)	18,415	47,473	88,725	-	-	154,613
Disposals/write-offs	(20)	(12,630)	(17,607)	-	-	(30,257)
At 31 December 2018	187,915	332,401	295,990	-	-	816,306
Initial application of IFRS 16	-	-	-	96,225	-	96,225
Charge for the year (Note 32)	18,848	58,925	88,009	56,934	-	222,716
Disposals/write-offs/elimination	(3,333)	(131,042)	(94,330)	(61,549)	-	(290,254)
At 31 December 2019	203,430	260,284	289,669	91,610		844,993
Carrying amount						
At 31 December 2019	428,073	178,151	281,563	100,516	642,567	1,630,870
At 31 December 2018	657,945	174,030	260,146	-	389,467	1,481,588

*Improvements to freehold properties and others includes software and other intangible assets.

** Capital work-in-progress mainly includes the new Head Office building under construction.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

14 Deposits and balances due to banks

(a) The analysis of deposits and balances due to banks is as follows:

	2019 AED'000	2018 AED'000
Time	6,802,998	5,697,662
Demand	1,987,182	1,941,701
Overnight	2,394,316	1,420,600
	<u>11,184,496</u>	<u>9,059,963</u>

(b) The above represent deposits and balances due to banks from:

	2019 AED'000	2018 AED'000
Banks within the UAE	2,134,251	762,035
Banks outside the UAE	9,050,245	8,297,928
	<u>11,184,496</u>	<u>9,059,963</u>

15 Repurchase agreements with banks

Repricing	2019 AED'000	2018 AED'000
1-6 months	<u>1,088,537</u>	<u>2,116,677</u>

The above repurchase agreements with banks are at an average interest rate of 2.27% (31 December 2018: 2.65%) per annum. Collateral provided as security against these Repo borrowings is disclosed in Note 7(f) to the consolidated financial statements.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

16 Customers' deposits

(a) The analysis of customers' deposits is as follows:

	2019 AED'000	2018 AED'000
Current and other accounts	32,488,830	33,398,960
Saving accounts	2,885,960	3,038,875
Time deposits	41,064,782	36,084,021
	<u>76,439,572</u>	<u>72,521,856</u>

(b) Analysis by industry sector:

	2019 AED'000	2018 AED'000
Government and public sector	9,753,009	10,996,542
Commercial and business	47,012,973	42,455,084
Personal	15,914,398	15,628,411
Financial institutions	3,592,495	3,402,769
Other	166,697	39,050
	<u>76,439,572</u>	<u>72,521,856</u>

17 Islamic customers' deposits

(a) The analysis of Islamic customers' deposits is as follows:

	2019 AED'000	2018 AED'000
Current and other accounts	2,554,782	4,588,535
Saving accounts	123,388	145,446
Time deposits	11,851,091	5,962,726
	<u>14,529,261</u>	<u>10,696,707</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

17 Islamic customers' deposits (continued)

(b) Analysis by industry sector:

	2019 AED'000	2018 AED'000
Government and public sector	545	202,651
Commercial and business	4,014,033	4,614,834
Personal	801,454	825,034
Financial institutions	9,713,229	5,054,188
	<u>14,529,261</u>	<u>10,696,707</u>

18 Other liabilities

	2019 AED'000	2018 AED'000
Interest payable	631,704	654,717
Negative fair value of derivatives (Note 41)	607,014	564,147
Insurance related payables	755,461	866,651
Accrued expenses	568,702	670,828
Income received in advance	297,334	383,040
Pay orders issued	420,930	433,040
Provision for employees' end of service indemnity**	234,499	219,324
Provision for taxation	69,645	105,025
Lease liability	93,891	-
Others	1,112,593	1,307,946
Allowance for impairment – off balance sheet	158,785	150,788
	<u>4,950,558</u>	<u>5,355,506</u>

** Provision for employees' end of service indemnity included AED 216 million (31 December 2018: AED 203 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 2019 (continued)

19 Medium-term loans

	2019 AED'000	2018 AED'000
Medium term notes	11,838,757	8,185,390

(a) The maturities of the medium-term notes (MTNs) issued under the Euro Medium Term Note (EMTN) programme are as follows:

Year	2019 AED'000	2018 AED'000
2019	-	6,285,157
2020	4,370,545	978,310
2021	1,624,111	367,300
2022	1,780,371	337,916
2023	250,557	216,707
2024	3,775,725	-
2029	37,448	-
	11,838,757	8,185,390

Medium term notes are denominated in following currencies:

	2019 AED'000	2018 AED'000
U.S. Dollars	9,703,241	6,767,135
Japanese Yen	896,221	811,134
Swiss Francs	-	186,599
Chinese Yuan	617,109	-
Euro	161,112	420,522
Great Britain Pound	461,074	-
	11,838,757	8,185,390

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 2019, new medium-term notes of AED 10 billion were issued and AED 7 billion of medium-term notes were redeemed.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

20 Insurance contract liabilities and reinsurance contract assets

	2019 AED'000	2018 AED'000
Insurance contract liabilities		
Outstanding claims	1,946,066	1,772,797
Incurred but not reported claims reserve	483,661	417,269
Life assurance fund	172,799	178,142
Unearned premium	1,310,585	1,381,079
Unit linked liabilities	332,324	319,883
Unallocated loss adjustment expenses reserve	8,354	7,990
	4,253,789	4,077,160
	2019 AED'000	2018 AED'000
Recoverable from re-insurers		
Outstanding claims	1,527,696	1,389,082
Incurred but not reported claims reserve	313,844	301,175
Life assurance fund	30,497	4,811
Unearned premium	713,881	777,730
	2,585,918	2,472,798
	2019 AED'000	2018 AED'000
Insurance contract liabilities-net		
Outstanding claims	418,370	383,715
Incurred but not reported claims reserve	169,817	116,094
Life assurance fund	142,302	173,331
Unearned premium	596,704	603,349
Unit linked liabilities	332,324	319,883
Unallocated loss adjustment expenses reserve	8,354	7,990
	1,667,871	1,604,362

The Group previously presented reinsurance recoveries relating to its technical reserve from its insurance subsidiary as a net amount within insurance contract liabilities in the statement of financial position. Management has re-evaluated the presentation of reinsurance recoveries, amounting to AED 2.47 billion at 31 December 2018, and has reclassified the amount from insurance contract liabilities to reinsurance contract assets, to conform to the presentation adopted in the 2019 consolidated financial statements. This reclassification did not have any impact on the consolidated statement of profit or loss.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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

	2019			2018		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
At 1 January	2,198,056	(1,690,257)	507,799	2,245,477	(1,734,984)	510,493
Claims incurred during the year	2,603,569	(1,456,820)	1,146,749	2,729,847	(1,604,612)	1,125,235
Claims settled during the year	(2,363,544)	1,305,537	(1,058,007)	(2,777,268)	1,649,339	(1,127,929)
At 31 December	<u>2,438,081</u>	<u>(1,841,540)</u>	<u>596,541</u>	<u>2,198,056</u>	<u>(1,690,257)</u>	<u>507,799</u>

20.2 Movement in life assurance fund

	AED'000
At 1 January 2018	208,045
Net movement during the year	(34,714)
At 31 December 2018	<u>173,331</u>
Net movement during the year	(31,029)
At 31 December 2019	<u>142,302</u>

20.3 Movement in unit linked liabilities

	AED'000
At 1 January 2018	296,293
Net movement during the year	23,590
At 31 December 2018	<u>319,883</u>
Net movement during the year	12,441
At 31 December 2019	<u>332,324</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 2019 or 2018, 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	Impact on net liability	
		2019 AED'000	2018 AED'000
Mortality/morbidity	+10%	763	850
Discount rate	+75bps	(4,105)	(5,604)
Mortality/morbidity	-10%	(767)	(851)
Discount rate	-75bps	4,456	6,165

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

As at 31 December 2019, 177,530,823 ordinary shares of AED 10 each (31 December 2018: 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 gain of AED 57 million (31 December 2018: loss of AED 73 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 26 February 2019, the shareholders approved a cash dividend of 40% for the year ended 31 December 2018 (31 December 2017: cash dividend of 40%) of the issued and paid up capital amounting to AED 710 million (31 December 2017: AED 710 million).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

22 Non-controlling interests

	2019 AED'000	2018 AED'000
At beginning of the year	621,585	762,974
Initial application of IFRS 16	(49)	-
Initial application of IFRS 9	-	(126,080)
Share of profit for the year (Note 36)	70,948	5,018
Share of other comprehensive income for the year	17,864	(8,135)
Additional contribution received during the year	-	4,463
Dividends paid	-	(16,655)
At end of the year	<u>710,348</u>	<u>621,585</u>

23 Contingent liabilities and commitments

(a) The analysis of the Group's contingent liabilities and commitments is as follows:

	2019 AED'000	2018 AED'000
Guarantees	43,922,209	43,446,508
Letters of credit	7,845,546	8,051,513
Commitments for capital expenditure	485,774	483,598
Operating lease commitments	-	108,266
	<u>52,253,529</u>	<u>52,089,885</u>

(b) Irrevocable undrawn credit facilities commitments as at 31 December 2019 amounted to AED 6.96 billion (31 December 2018: AED 4.26 billion).

(c) Contingent liabilities and commitments – maturity profile

The maturity profile of the Group's contingent liabilities and commitments were as follows:

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	Total AED'000
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	<u>10,419,461</u>	<u>4,718,765</u>	<u>7,211,792</u>	<u>14,412,603</u>	<u>15,005,134</u>	<u>51,767,755</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

23 Contingent liabilities and commitments (continued)

(c) Contingent liabilities and commitments – maturity profile (continued)

31 December 2018

	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
Guarantees	11,502,092	1,730,240	4,422,142	13,188,978	12,603,056	43,446,508
Letters of credit	4,972,072	539,769	1,026,279	1,513,393	-	8,051,513
Total	<u>16,474,164</u>	<u>2,270,009</u>	<u>5,448,421</u>	<u>14,702,371</u>	<u>12,603,056</u>	<u>51,498,021</u>

The analysis of contingent liabilities and commitments by geographic region and industry sector is shown in Note 38 to the consolidated financial statements.

(d) Operating lease commitments

The future minimum lease payments payable under non-cancellable operating leases where the Group is the lessee are as follows:

	2018 AED'000
Less than 1 year	57,739
1 to 5 years	36,706
Over 5 years	<u>13,821</u>
Total	<u>108,266</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

24 Interest income

	2019 AED'000	2018 AED'000
Loans and advances	3,738,920	3,656,967
Banks	1,188,411	910,282
Central banks	283,191	168,544
Other financial assets measured at amortised cost	551,234	604,288
Others	119,658	86,982
	<u>5,881,414</u>	<u>5,427,063</u>

25 Income from Islamic financing and investment products

	2019 AED'000	2018 AED'000
<u>Financing</u>		
Murabaha	388,386	349,586
Ijara	352,642	208,934
Other	3,682	6,717
	<u>744,710</u>	<u>565,237</u>
<u>Investment</u>		
Mudaraba	104	278
Wakala	8,831	5,053
	<u>8,935</u>	<u>5,331</u>
Total	<u>753,645</u>	<u>570,568</u>

26 Interest expense

	2019 AED'000	2018 AED'000
Customers' deposits	1,697,191	1,386,702
Deposits and balances due to banks	558,745	493,950
Medium-term loans	361,919	216,134
	<u>2,617,855</u>	<u>2,096,786</u>

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 Shari'ah Supervisory Board.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

28 Net fee and commission income

	2019 AED'000	2018 AED'000
Fee and commission income		
Commission income	518,576	531,387
Insurance commission	262,992	281,819
Fees and charges on banking services	649,629	607,206
Credit card related fees	1,290,650	1,252,264
Others	181,859	184,887
Total	2,903,706	2,857,563
Fee and commission expenses		
Commission expense	(33,192)	(41,861)
Insurance commission	(370,954)	(387,889)
Credit card related expenses	(1,040,024)	(944,904)
Others	(94,049)	(69,429)
Total	(1,538,219)	(1,444,083)
Net fee and commission income	1,365,487	1,413,480

29 Net investment income

	2019 AED'000	2018 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	76,614	5,033
Unrealised loss on other financial assets measured at FVTPL [Note 7(j)]	(13,524)	(8,302)
Dividend income from other financial assets measured at FVTPL	862	551
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	62,068	11,100
Dividend income from other financial assets measured at FVTOCI [Note 7 (i)]	23,758	18,146
	149,778	26,528

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

30 Other income, net

	2019 AED'000	2018 AED'000
Foreign exchange gains	341,521	360,702
Insurance related income (Note 36)	489,314	442,661
Gain/(loss) on disposal of property and equipment	8,865	(15,410)
Loss from disposal of investment properties (Note 12)	(600)	-
Unrealised loss on derivatives	(20,260)	(3,992)
Unrealised loss on investment properties (Note 12)	(13,244)	(27,806)
Others	(33,821)	99,063
	<u>771,775</u>	<u>855,218</u>

31 Allowances for impairment, net

	2019 AED'000	2018 AED'000
Deposits and balances due from banks [Note 6(c)]	38,931	(13,068)
Other financial assets (debt securities) [Note 7(d)]	(31,445)	36,083
Loans and advances measured at amortised cost [Note 8(d)]	830,925	669,752
Islamic financing and investment products measured at amortised cost [Note 9(c)]	47,611	122,556
Other assets	13,808	42,740
Change in impairment allowance on off-balance sheet items	890	(69,834)
Loans and advances measured at amortized cost written off	390,468	519,130
Recovery of loans and advances measured at amortised cost previously written off	(79,001)	(77,104)
	<u>1,212,187</u>	<u>1,230,255</u>

32 General and administrative expenses

	2019 AED'000	2018 AED'000
Salaries and employees related expenses	1,615,176	1,540,513
Depreciation on property and equipment (Note 13)	222,716	154,613
Social contribution	20	68
Others	785,191	923,016
	<u>2,623,103</u>	<u>2,618,210</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

33 Earnings per share

The basic earnings per share is calculated by dividing the net profit attributable to owners of the Parent by the weighted average number of ordinary shares in issue during the year.

	2019	2018
Profit for the year (AED'000)		
(Attributed to owners of the Parent)	<u>2,065,194</u>	<u>2,060,200</u>
Number of ordinary shares outstanding		
[Note 21 (a)]	<u>177,530,823</u>	<u>177,530,823</u>
Basic and diluted earnings per share (AED)	<u>11.63</u>	<u>11.60</u>

34 Proposed dividends

The board of Directors has proposed 40% Cash Dividend at their meeting held on 3 February 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 follows:

	2019 AED'000	2018 AED'000
Cash on hand	908,016	919,071
Current accounts and other balances with central banks	10,508,330	8,973,020
Certificates of deposit maturing within 3 months	1,050,000	4,000,000
Deposits and balances due from banks maturing within 3 months	10,300,461	8,945,752
Balances due to banks and financial institutions maturing within 3 months	(7,046,618)	(5,375,810)
Repurchase agreements with banks maturing within 3 months	(377,572)	(1,258,268)
	<u>15,342,617</u>	<u>16,203,765</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

36 Investment in subsidiaries

(a) At 31 December 2019, Mashreqbank PSC Group (the “Group”) comprises the Bank and the following direct subsidiaries and associates:

Subsidiary	Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
	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 2019 (continued)

36 Investment in subsidiaries (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	
	2019	2018	2019	2018
	AED'000	AED'000	AED'000	AED'000
Oman Insurance Company (PSC) Group	71,038	3,049	705,110	616,263
Individually immaterial subsidiaries with non - controlling interests	(90)	1,969	5,238	5,322
	<u>70,948</u>	<u>5,018</u>	<u>710,348</u>	<u>621,585</u>

(c) Other financial assets measured at FVTPL include investments by Oman Insurance Company PSC amounting to AED 378 million (31 December 2018: AED 357 million).

(d) 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

36 Investment in subsidiaries (continued)

	2019 AED'000	2018 AED'000
Statement of financial position		
Total assets	7,086,843	6,717,228
Total liabilities	5,171,156	5,046,017
Net equity	1,915,687	1,671,211
	2019 AED'000	2018 AED'000
Statement of comprehensive income		
Gross insurance premium	3,545,062	3,699,364
Less: Insurance premium ceded to reinsurers	(1,934,027)	(2,155,671)
Net retained premium	1,611,035	1,543,693
Net change in unearned premium and mathematical reserve	25,028	24,203
Net earned insurance premium	1,636,063	1,567,896
Gross claims settled	(2,363,544)	(2,777,268)
Insurance claims recovered from reinsurers	1,305,537	1,649,339
Net claims settled	(1,058,007)	(1,127,929)
Net change in outstanding claims and additional reserve	(88,742)	2,694
Net claims incurred	(1,146,749)	(1,125,235)
Insurance related income (Note 30)	489,314	442,661
Net commission and other (loss)/income	(57,310)	(64,122)
Net investment income	91,695	49,131
Net expenses	(333,154)	(417,452)
Profit for the year	190,545	10,218
Other comprehensive income	54,167	(8,472)
Total comprehensive income	244,712	1,746
Statement of cash flows		
Net cash generated from operating activities	250,589	433,460
Net cash used in investing activities	(207,169)	(195,443)
Net cash flows used in financing activities	(74,901)	(212,937)
Net increase in cash and cash equivalents	(31,481)	25,080

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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:

	2019 AED’000	2018 AED’000
Balances with major shareholders		
Loans and advances	4,001,254	3,742,323
Deposits/ financial instruments under lien	801,542	888,788
Letter of credit and guarantees	1,568,804	1,233,534
Balances with directors and key management personnel		
Loans and advances	83,227	110,894
Deposits/ financial instruments under lien	189,052	223,284
Letter of credit and guarantees	106,747	35,696

(c) Profit for the year includes related party transactions as follows:

	2019 AED’000	2018 AED’000
Transactions with major shareholders		
Interest income	185,109	178,423
Interest expense	1,778	1,428
Other income	46,073	47,079
Transactions with directors and key management personnel		
Interest income	4,024	4,824
Interest expense	839	1,545
Other income	1,073	882

(d) The Group is controlled by Al Ghurair Family who own 88.07% (31 December 2018: 88.08%) of the issued and paid up capital of the bank.

(e) 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 128 million (31 December 2018: AED 137 million).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

38 Concentration of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2019			31 December 2018		
	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.	87,292,022	72,500,184	33,887,679	79,619,068	66,489,614	33,340,165
Other Middle East Countries	27,708,129	23,802,313	5,976,934	24,181,501	21,663,077	6,969,270
O.E.C.D.	20,500,957	20,421,622	4,729,767	13,869,539	16,844,517	4,378,738
Others	23,929,875	20,463,934	7,173,375	24,890,969	16,798,180	6,809,848
	<u>159,430,983</u>	<u>137,188,053</u>	<u>51,767,755</u>	<u>142,561,077</u>	<u>121,795,388</u>	<u>51,498,021</u>

(b) Industry Sectors

	31 December 2019			31 December 2018		
	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	24,272,006	9,940,082	171,384	15,701,733	11,503,989	168,460
Commercial & business	63,308,000	64,689,642	41,548,590	56,465,103	58,017,669	38,418,876
Personal	15,698,521	17,705,829	710,091	15,667,433	17,211,465	922,371
Financial institutions	54,577,712	44,101,826	9,248,130	52,492,798	34,753,011	11,988,314
Others	1,574,744	750,674	89,560	2,234,010	309,255	-
	<u>159,430,983</u>	<u>137,188,053</u>	<u>51,767,755</u>	<u>142,561,077</u>	<u>121,795,388</u>	<u>51,498,021</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

39 Segmental information

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) The **Domestic Corporate** segment comprises of corporate and commercial banking customers in the U.A.E. trade finance, contracting finance, project finance, investment banking, corporate advisory, cash management, and Islamic financing are the major products and / or business lines making up this segment.
- (ii) The **Domestic Retail** segment includes products and services offered to individuals or small businesses within U.A.E. 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. 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 Retail and Corporate business for the Group's overseas banking branches in Qatar, Egypt, Bahrain & Kuwait and the Group's correspondent banking business in other overseas branches which includes trade services, reimbursements, reimbursement undertaking, reimbursement financing, export bills collection and risk participations.
- (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 certain investments and assets held centrally due to their strategic significance to the Group.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

39 Segmental information (continued)

Reportable segments (continued)

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 2019 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2019						
	Domestic corporate AED'000	Domestic 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	1,236,426	1,065,605	158,912	714,853	86,894	444,466	3,707,156
Other income, net	493,091	543,900	408,283	513,571	434,305	(106,110)	2,287,040
Total operating income	<u>1,729,517</u>	<u>1,609,505</u>	<u>567,195</u>	<u>1,228,424</u>	<u>521,199</u>	<u>338,356</u>	<u>5,994,196</u>
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							<u>2,136,142</u>
Attributable to:							
Owners of the Parent							2,065,194
Non-controlling interests							<u>70,948</u>
							<u>2,136,142</u>
Segment Assets	<u>48,861,597</u>	<u>15,722,653</u>	<u>22,645,325</u>	<u>41,867,588</u>	<u>7,039,901</u>	<u>23,293,919</u>	<u>159,430,983</u>
Segment Liabilities	<u>46,810,166</u>	<u>24,830,730</u>	<u>22,594,704</u>	<u>22,972,370</u>	<u>5,170,031</u>	<u>14,810,052</u>	<u>137,188,053</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2018						
	Domestic corporate AED'000	Domestic 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	1,130,542	1,099,980	295,628	688,732	59,078	369,102	3,643,062
Other income, net	479,699	590,334	397,838	510,536	307,341	9,478	2,295,226
Total operating income	1,610,241	1,690,314	693,466	1,199,268	366,419	378,580	5,938,288
General and administrative expenses							(2,618,210)
Operating profit before impairment							3,320,078
Allowances for impairment, net							(1,230,255)
Profit before tax							2,089,823
Tax expense							(24,605)
Profit for the year							2,065,218
Attributable to:							
Owners of the Parent							2,060,200
Non-controlling interests							5,018
							2,065,218
Segment Assets	44,062,069	15,333,110	19,987,996	36,906,173	6,740,209	19,531,520	142,561,077
Segment Liabilities	41,688,270	24,346,359	16,781,597	22,080,756	5,082,085	11,816,321	121,795,388

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 **	
	2019 AED'000	2018 AED'000	2019 AED'000	2018 AED'000
UAE	4,972,018	5,006,022	1,977,362	1,917,671
Other Middle East countries	724,402	647,472	87,363	36,711
O.E.C.D.	218,766	219,950	34,792	15,114
Other countries	79,010	64,844	4,944	1,977
	<u>5,994,196</u>	<u>5,938,288</u>	<u>2,104,461</u>	<u>1,971,473</u>

* Operating income from external customers is based on the Group's operational centres.

** Non-current assets include property & equipment and investment properties.

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 2019 and 2018.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 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 2019 (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 2018:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	20,147,826	20,147,826
Deposits and balances due from banks	-	-	23,009,168	23,009,168
Other financial assets measured at fair value	891,906	845,853	-	1,737,759
Other financial assets measured at amortised cost	-	-	11,681,234	11,681,234
Loans and advances measured at amortised cost	-	-	56,353,340	56,353,340
Islamic financing and investment products measured at amortised cost	-	-	12,916,255	12,916,255
Acceptances	-	-	9,782,129	9,782,129
Other assets	557,290	-	1,473,935	2,031,225
Total	<u>1,449,196</u>	<u>845,853</u>	<u>135,363,887</u>	<u>137,658,936</u>

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial liabilities:				
Deposits and balances due to banks	-	-	9,059,963	9,059,963
Repurchase agreements with banks	-	-	2,116,677	2,116,677
Customers' deposits	-	-	72,521,856	72,521,856
Islamic customers' deposits	-	-	10,696,707	10,696,707
Acceptances	-	-	9,782,129	9,782,129
Other liabilities	564,147	-	3,217,320	3,781,467
Medium-term loans	-	-	8,185,390	8,185,390
Total	<u>564,147</u>	<u>-</u>	<u>115,580,042</u>	<u>116,144,189</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 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. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit loss in the derivatives portfolios. CVA is a function of our expected exposure to counterparties, 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 2019, net incremental CVA charge to statement of profit or loss amounts to AED 24 million.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 purchased (Bank)	1,277	-	70,805	66,461	4,344	-	-	-
Futures contracts sold (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 2019 (continued)

41 Derivatives (continued)

31 December 2018

	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	259,450	292,853	53,306,724	38,704,871	5,385,964	4,967,162	4,002,050	246,677
Foreign exchange options								
(bought)	-	5,329	1,191,765	877,389	-	314,376	-	-
Foreign exchange options (sold)	5,585	-	1,166,682	852,306	-	314,376	-	-
Interest rate swaps	251,274	245,948	21,455,121	84,167	3,625,894	439,918	11,115,352	6,189,790
Credit default swaps	-	553	12,616	-	-	-	12,616	-
Futures contracts purchased								
(Customer)	1,138	-	674,327	650,480	884	22,963	-	-
Futures contracts sold (Customer)	-	18,251	703,213	699,182	4,031	-	-	-
Futures contracts sold (Bank)	-	1,213	701,052	654,927	23,162	22,963	-	-
Futures contracts purchased (Bank)	18,429	-	703,213	699,182	4,031	-	-	-
Total	<u>535,876</u>	<u>564,147</u>	<u>79,914,713</u>	<u>43,222,504</u>	<u>9,043,966</u>	<u>6,081,758</u>	<u>15,130,018</u>	<u>6,436,467</u>
Derivatives held as fair value and cash flow hedge:								
Cross-currency swap	21,414	-	365,840	-	-	-	172,160	193,680
Total	<u>557,290</u>	<u>564,147</u>	<u>80,280,553</u>	<u>43,222,504</u>	<u>9,043,966</u>	<u>6,081,758</u>	<u>15,302,178</u>	<u>6,630,147</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 2019 (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 2019 is 13% inclusive of capital conservation buffer.

The bank must 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) Additionally, banks are required to maintain capital conservation buffer of 2.5% in 2019.

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 2019 (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 2019 (continued)

42 Capital management (continued)

Regulatory capital (continued)

- (a) The Group's regulatory capital positions as at 31 December 2019 and 31 December 2018 were as follows:

	2019 AED'000	2018 AED'000
Common equity Tier 1 capital		
Issued and paid up capital	1,775,308	1,775,308
Statutory and legal reserve	907,714	903,877
General reserve	312,000	312,000
Currency translation reserve	(88,720)	(81,380)
Investments revaluation reserve	(273,595)	(242,733)
Retained earnings*	18,185,459	16,771,033
Non-controlling interests – eligible amount	4,748	4,971
Less: Regulatory deductions	(48,631)	(46,410)
Total (A)	20,774,283	19,396,666
Additional Tier 1 capital	-	-
Total Tier 1 capital (B)	20,774,283	19,396,666
Tier 2 capital		
General provision	1,549,604	1,422,061
Total	1,549,604	1,422,061
Total capital base (C)	22,323,887	20,818,727
Credit risk	123,968,330	113,764,844
Market risk	2,770,836	2,253,118
Operational risk	10,424,335	10,527,207
Total risk-weighted assets (D)	137,163,501	126,545,169
Capital adequacy ratio [(C)/(D) x 100]	16.28%	16.45%

* Net of proposed dividend.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 2019 (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 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
- Liquidity risk
- Market risk
- Operational 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 (the “BRC”) has overall responsibility for establishment and oversight of the Group’s risk management framework. They are assisted by various management committees including the Enterprise Risk Committee (“ERC”), Assets and Liabilities Committee (“ALCO”), Regulatory Compliance Committee (“RCC”) and Investment Committee etc. These committees operate under the terms of reference set by the Board and assist the Board in review and approval of all risk management policies.

While the Board carries ultimate responsibility for overall risk management within the Bank, the BRC assists the Board in discharging its responsibilities in relation to ‘Risk Management’ at the Bank which includes identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the Bank. The BRC makes recommendations to the Board for approval of the Group’s overall Risk Appetite.

The Enterprise Risk Committee (“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 establishes and monitors various concentration limits, approves policy exceptions and periodically reviews credit portfolio to ascertain asset quality.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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

Mashreq’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 2019 (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 monitoring performed by Enterprise Risk Committee.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

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.

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, 80 and 99, corresponding to NAUR (Non-accrual Under Restructuring), Substandard, Doubtful, Loss classifications and 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	Fair Risk
Grade 4	21-25	Watch List
Grade 5	50,60,70,80,90	Impaired

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 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, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. 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.
- 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 the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit impaired financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced a significant increase in credit risk 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.

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
- 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Expected credit loss measurement (continued)

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, if the borrower experiences a significant increase in probability of default, which can be triggered by the following Default Risk Indicator's (DRI):

- Past due
- Net worth erosion
- Fraudulent activity
- Distressed restructure
- Financial covenants breach
- Significant operations disruption

For corporate loans, a significant increase in probability of default can also be triggered by the following additional qualitative factors:

- Management
- Industry outlook
- Financial conduct
- Income stability
- Lifecycle stage
- Auditor information

The Group has not used the low credit exemption for any financial instruments in the year ended 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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. Mashreq 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.

Mashreq 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 models.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

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 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.

Mashreq has adopted a workout methodology for LGD computation. For the Corporate segment, the Bank has developed the LGD framework using more than 20 years of data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post 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 at product level due to the limited differentiation in recoveries achieved across different borrowers. These LGDs are influenced by collection strategies, including contracted debt sales and prices.

Forward-looking economic information is also included in determining the 12-month and lifetime PD.

There have been no significant changes in estimation techniques or significant assumptions made during the year.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

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 PD, EAD and LGD vary by financial instrument. Expert judgement has also been applied in this process. Forecasts of these economic variables (the “base economic scenario”) are provided by the Group’s Economics team on a quarterly basis and provide the best estimate view of the economy over the next five years. After five years, to project the economic variables out of the full remaining lifetime of each instrument, a mean reversion approach has been used, which means that economic variables tend to either a long run average rate (e.g. for unemployment or a long run average growth rate (e.g. GDP) over a period of two to five year). The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

Sensitivity analysis

Mashreq has calculated ECL at an individual financial instrument level, hence does not require any grouping of financial instruments in the process of loss calculation.

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 broad 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 39.7 million and an ECL increase AED 37.5 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 2019 (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:

	2019				2018			
	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
<i>Cash and balances with Central Bank</i>	20,939,700	-	-	20,939,700	20,147,826	-	-	20,147,826
Loss allowance	-	-	-	-	-	-	-	-
Carrying amount	20,939,700	-	-	20,939,700	20,147,826	-	-	20,147,826
<i>Deposits and balances due from banks</i>								
Investment-grade	6,722,691	1,707	-	6,724,398	7,946,529	1,300	-	7,947,829
BB+ & below	5,625,956	130,051	-	5,756,007	5,827,668	74,201	-	5,901,869
Unrated	12,999,473	1,156,243	38,329	14,194,045	8,510,198	680,594	35,427	9,226,219
	25,348,120	1,288,001	38,329	26,674,450	22,284,395	756,095	35,427	23,075,917
Loss allowance	(89,419)	(5,963)	(13,220)	(108,602)	(50,817)	(5,614)	(10,318)	(66,749)
Carrying amount	25,258,701	1,282,038	25,109	26,565,848	22,233,578	750,481	25,109	23,009,168

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2019			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Loans and advances -At amortised cost</i>				
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
	<u>57,261,500</u>	<u>5,141,967</u>	<u>3,151,181</u>	<u>65,554,648</u>
Loss allowance	<u>(435,818)</u>	<u>(1,498,488)</u>	<u>(1,910,065)</u>	<u>(3,844,371)</u>
Carrying amount	<u>56,825,682</u>	<u>3,643,479</u>	<u>1,241,116</u>	<u>61,710,277</u>
<i>Islamic financing and investment products measured at amortised cost</i>				
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
	<u>13,718,735</u>	<u>532,172</u>	<u>334,440</u>	<u>14,585,347</u>
Loss allowance	<u>(39,795)</u>	<u>(6,151)</u>	<u>(82,644)</u>	<u>(128,590)</u>
Carrying amount	<u>13,678,940</u>	<u>526,021</u>	<u>251,796</u>	<u>14,456,757</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2018			
<i>Loans and advances -At amortised cost</i>	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Grading 1	5,467,110	401,992	-	5,869,102
Grading 2	37,647,001	1,126,750	-	38,773,751
Grading 3	5,622,020	885,777	-	6,507,797
Grading 4	3,828,351	2,247,452	-	6,075,803
Grading 5	-	-	2,607,470	2,607,470
	<u>52,564,482</u>	<u>4,661,971</u>	<u>2,607,470</u>	<u>59,833,923</u>
Loss allowance	(393,497)	(1,498,365)	(1,588,721)	(3,480,583)
Carrying amount	<u>52,170,985</u>	<u>3,163,606</u>	<u>1,018,749</u>	<u>56,353,340</u>
<i>Islamic financing and investment products measured at amortised cost</i>				
Grading 1	1,724,371	20,927	-	1,745,298
Grading 2	8,289,128	254,787	-	8,543,915
Grading 3	1,586,105	60,566	-	1,646,671
Grading 4	597,192	346,604	-	943,796
Grading 5	-	-	175,631	175,631
	<u>12,196,796</u>	<u>682,884</u>	<u>175,631</u>	<u>13,055,311</u>
Loss allowance	(51,293)	(20,109)	(67,654)	(139,056)
Carrying amount	<u>12,145,503</u>	<u>662,775</u>	<u>107,977</u>	<u>12,916,255</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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
<i>Other financial assets measured at amortised cost</i>				
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
	<u>9,890,207</u>	<u>1,009,106</u>	<u>2,205</u>	<u>10,901,518</u>
Loss allowance	(19,047)	(5,113)	(2,205)	(26,365)
Carrying amount	<u>9,871,160</u>	<u>1,003,993</u>	<u>-</u>	<u>10,875,153</u>
<i>Other financial assets measured at FVTOCI</i>				
Investment-grade	2,197,921	-	-	2,197,921
BB+ & below	267,224	-	-	267,224
Unrated	1,980	-	-	1,980
	<u>2,467,125</u>	<u>-</u>	<u>-</u>	<u>2,467,125</u>
Loss allowance	(872)	-	-	(872)
Carrying amount	<u>2,466,253</u>	<u>-</u>	<u>-</u>	<u>2,466,253</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2018			
	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
<i>Other financial assets measured at amortised cost</i>				
Investment-grade	8,020,164	-	-	8,020,164
BB+ & below	3,646,757	-	-	3,646,757
Unrated	70,642	-	-	70,642
	<u>11,737,563</u>	<u>-</u>	<u>-</u>	<u>11,737,563</u>
Loss allowance	(56,329)	-	-	(56,329)
Carrying amount	<u>11,681,234</u>	<u>-</u>	<u>-</u>	<u>11,681,234</u>
<i>Other financial assets measured at FVTOCI</i>				
Investment-grade	204,952	-	-	204,952
BB+ & below	67,640	-	-	67,640
Unrated	23,568	-	-	23,568
	<u>296,160</u>	<u>-</u>	<u>-</u>	<u>296,160</u>
Loss allowance	-	-	-	-
Carrying amount	<u>296,160</u>	<u>-</u>	<u>-</u>	<u>296,160</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2019				2018			
	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
Credit risk exposures relating to on-balance sheet assets are as follows:								
<i>Other assets</i>	-	597,644	459,230	1,056,874	-	803,517	389,262	1,192,779
Loss allowance	-	(20,769)	(437,100)	(457,869)	-	(158,838)	(365,443)	(524,281)
Carrying amount	-	576,875	22,130	599,005	-	644,679	23,819	668,498
 <i>Acceptances</i>	 12,749,871	 153,212	 -	 12,903,083	 9,731,526	 50,603	 -	 9,782,129
Loss allowance	(15,236)	(1,310)	-	(16,546)	(18,482)	(281)	-	(18,763)

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment (continued)

	2019				2018			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
<i>Credit risk exposures relating to off-balance sheet items are as follows:</i>	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	7,634,816	210,730	-	7,845,546	7,684,607	366,906	-	8,051,513
Guarantees	40,882,679	3,039,530	-	43,922,209	39,477,307	3,969,201	-	43,446,508
Undrawn credit commitments -Irrevocable	6,963,757	-	-	6,963,757	4,244,289	13,182	-	4,257,471
	<u>55,481,252</u>	<u>3,250,260</u>	<u>-</u>	<u>58,731,512</u>	<u>51,406,203</u>	<u>4,349,289</u>	<u>-</u>	<u>55,755,492</u>
Loss allowance	<u>(83,863)</u>	<u>(58,376)</u>	<u>-</u>	<u>(142,239)</u>	<u>(67,455)</u>	<u>(64,570)</u>	<u>-</u>	<u>(132,025)</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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.

	2019 AED'000	2018 AED'000
Trading assets		
- Debt securities	876,295	283,013
- Derivatives	638,181	535,876
Hedging derivatives	29,200	21,414
	<u>1,543,676</u>	<u>840,303</u>

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 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:

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Collateral and other credit enhancements

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 2019 AED'000	31 December 2018 AED'000	31 December 2019 AED'000	31 December 2018 AED'000
<i>Against individually impaired:</i>				
Properties	951,246	1,242,164	-	-
Equities	416,632	374,011	-	-
Cash	5,002	13,275	-	-
Others	196,968	72,400	-	-
	<u>1,569,848</u>	<u>1,701,850</u>	<u>-</u>	<u>-</u>
<i>Against not impaired:</i>				
Properties	21,144,026	20,242,150	-	-
Equities	1,177,590	1,881,590	-	-
Cash	16,100,708	12,472,999	297,832	597,389
Others	5,190,756	6,967,793	-	-
	<u>43,613,080</u>	<u>41,564,532</u>	<u>297,832</u>	<u>597,389</u>
Total	<u>45,182,928</u>	<u>43,266,382</u>	<u>297,832</u>	<u>597,389</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Loss allowance

The following tables explain the changes in the loss allowance for the year ended 31 December 2019 and 31 December 2018:

	2019				2018			
	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
<i>Deposits and balances due from banks</i>								
Loss allowance as at 1 January	50,817	5,614	10,318	66,749	67,906	10,852	-	78,758
Transfers								
Transfer from Stage 1 to Stage 2	(5,773)	5,773	-	-	(5,683)	5,683	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	(10,746)	-	10,746	-
Transfer from Stage 2 to Stage 1	-	-	-	-	10,180	(10,180)	-	-
New financial assets originated	92,732	-	-	92,732	63,170	-	-	63,170
Changes in PDs/LGDs/EADs	(48,357)	(5,424)	2,902	(50,879)	(74,010)	(741)	-	(74,751)
Write-offs	-	-	-	-	-	-	(428)	(428)
Loss allowance as at 31 December	89,419	5,963	13,220	108,602	50,817	5,614	10,318	66,749

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

	2019				2018			
	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
<i>Loans and advances measured at amortised cost</i>								
Loss allowance as at 1 January	393,497	1,498,365	1,588,721	3,480,583	400,145	2,268,058	1,308,733	3,976,936
Transfers								
Transfer from Stage 1 to Stage 2	(66,593)	66,593	-	-	(117,667)	117,667	-	-
Transfer from Stage 1 to Stage 3	(7,188)	-	7,188	-	(17,771)	-	17,771	-
Transfer from Stage 2 to Stage 1	10,973	(10,973)	-	-	15,587	(15,587)	-	-
Transfer from Stage 2 to Stage 3	-	(45,131)	45,131	-	-	(455,806)	455,806	-
Transfer from Stage 3 to Stage 2	-	2,154	(2,154)	-	-	1,047	(1,047)	-
New financial assets originated	308,961	-	-	308,961	289,666	-	-	289,666
Changes in PDs/LGDs/EADs	(203,832)	(12,520)	917,550	701,198	(176,463)	(417,014)	1,257,563	664,086
Write-offs	-	-	(646,371)	(646,371)	-	-	(1,450,105)	(1,450,105)
Loss allowance as at 31 December	435,818	1,498,488	1,910,065	3,844,371	393,497	1,498,365	1,588,721	3,480,583

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

	2019				2018			
	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
<i>Islamic financing and investment products measured at amortised cost</i>								
Loss allowance as at 1 January	51,293	20,109	67,654	139,056	35,820	10,757	92,427	139,004
Transfers								
Transfer from Stage 1 to Stage 2	(1,083)	1,083	-	-	(5,509)	5,509	-	-
Transfer from Stage 1 to Stage 3	(6,958)	-	6,958	-	(504)	-	504	-
Transfer from Stage 2 to Stage 1	99	(99)	-	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(1,284)	1,284	-	-	(1,045)	1,045	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	437	(437)	-
New financial assets originated	22,998	-	-	22,998	25,683	-	-	25,683
Changes in PDs/LGDs/EADs	(26,554)	(13,658)	57,541	17,329	(4,197)	4,451	96,727	96,981
Write-offs	-	-	(50,793)	(50,793)	-	-	(122,612)	(122,612)
Loss allowance as at 31 December	<u>39,795</u>	<u>6,151</u>	<u>82,644</u>	<u>128,590</u>	<u>51,293</u>	<u>20,109</u>	<u>67,654</u>	<u>139,056</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

	2019				2018			
	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
<i>Other financial assets measured at amortised cost and FVTOCI</i>								
Loss allowance as at 1 January	56,329	-	-	56,329	20,254	-	-	20,254
Transfers								
Transfer from Stage 1 to Stage 2	(5,113)	5,113	-	-	-	-	-	-
New financial assets originated	24,868	-	-	24,868	39,030	-	-	39,030
Changes in PDs/LGDs/EADs	(55,382)	-	-	(55,382)	(2,955)	-	-	(2,955)
FX and other movements	(783)	-	2,205	1,422	-	-	-	-
Loss allowance as at 31 December	19,919	5,113	2,205	27,237	56,329	-	-	56,329

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

	2019				2018			
	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	-	158,838	365,443	524,281	-	113,427	374,841	488,268
Transfers								
Transfer from Stage 1 to Stage 2					(369)	369	-	-
Transfer from Stage 2 to Stage 3	-	(125,267)	125,267	-	-	-	-	-
Changes in PDs/LGDs/EADs	-	(12,728)	22,954	10,226	369	45,042	(9,398)	36,013
Write-offs	-	(74)	(76,564)	(76,638)	-	-	-	-
Loss allowance as at 31 December	-	20,769	437,100	457,869	-	158,838	365,443	524,281

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Loss allowance (continued)

	2019				2018			
	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
<i>LCs, LGs, irrevocable undrawn commitments and acceptances</i>								
Loss allowance as at 1 January	85,937	64,851	-	150,788	71,927	148,783	-	220,710
Transfers					-	-	-	-
Transfer from Stage 1 to Stage 2	(4,534)	4,534	-	-	(11,739)	11,739	-	-
Transfer from Stage 2 to Stage 1	9,018	(9,018)	-	-	41,739	(41,739)	-	-
Transfer from Stage 2 to Stage 3	-	(1,675)	1,675	-	-	-	-	-
New financial assets originated	70,917	-	-	70,917	52,013	-	-	52,013
Changes in PDs/LGDs/EADs	(62,239)	994	(1,675)	(62,920)	(68,902)	(53,932)	-	(122,834)
Changes to model assumptions and methodologies	-	-	-	-	899	-	-	899
Loss allowance as at 31 December	<u>99,099</u>	<u>59,686</u>	<u>-</u>	<u>158,785</u>	<u>85,937</u>	<u>64,851</u>	<u>-</u>	<u>150,788</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount

The following tables further explains the changes in the gross carrying amount for the year ended 31 December 2019 and 31 December 2018:

	2019				2018			
	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
<i>Cash and balances with central banks</i>								
Gross carrying amount as at 1 January	20,147,826	-	-	20,147,826	16,899,076	-	-	16,899,076
New financial assets originated	791,874	-	-	791,874	3,248,750	-	-	3,248,750
Gross carrying amount as at 31 December	20,939,700	-	-	20,939,700	20,147,826	-	-	20,147,826

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

	2019				2018			
	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
<i>Deposits and balances due from banks</i>								
Gross carrying amount as at 1 January	22,284,395	756,095	35,427	23,075,917	19,872,129	263,298	-	20,135,427
Transfers								
Transfer from Stage 1 to Stage 2	(1,272,567)	1,272,567	-	-	(861,777)	861,777	-	-
Transfer from Stage 1 to Stage 3	-	-	-	-	(33,484)	-	33,484	-
Transfer from Stage 2 to Stage 1	-	-	-	-	99,563	(99,563)	-	-
New financial assets originated	24,787,948	-	-	24,787,948	22,760,513	-	-	22,760,513
Repayments and other movements	(20,451,656)	(740,661)	2,902	(21,189,415)	(19,552,549)	(269,417)	2,371	(19,819,595)
Write-offs	-	-	-	-	-	-	(428)	(428)
Gross carrying amount as at 31 December	25,348,120	1,288,001	38,329	26,674,450	22,284,395	756,095	35,427	23,075,917

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

	2019				2018			
	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
<i>Other financial assets measured at amortised cost and FVTOCI</i>								
Gross carrying amount as at 1 January	12,033,723	-	-	12,033,723	12,583,404	-	-	12,583,404
Transfers								
Transfer from Stage 1 to Stage 2	(976,109)	976,109	-					
New financial assets originated	11,425,913	-	-	11,425,913	4,351,889	-	-	4,351,889
Repayments and other movements	(10,126,195)	32,997	2,205	(10,090,993)	(4,901,570)	-	-	(4,901,570)
Gross carrying amount as at 31 December	<u>12,357,332</u>	<u>1,009,106</u>	<u>2,205</u>	<u>13,368,643</u>	<u>12,033,723</u>	<u>-</u>	<u>-</u>	<u>12,033,723</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

	2019				2018			
	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
<i>Loans and advances measured at amortised cost</i>								
Gross carrying amount as at 1 January	52,564,482	4,661,971	2,607,470	59,833,923	44,766,212	9,752,218	1,944,940	56,463,370
Transfers								
Transfer from Stage 1 to Stage 2	(2,601,861)	2,601,861	-	-	(4,249,546)	4,249,546	-	-
Transfer from Stage 1 to Stage 3	(309,396)	-	309,396	-	(987,703)	-	987,703	-
Transfer from Stage 2 to Stage 3	-	(400,724)	400,724	-	-	(927,878)	927,878	-
Transfer from Stage 3 to Stage 2	-	19,213	(19,213)	-	-	3,666	(3,666)	-
Transfer from Stage 2 to Stage 1	641,947	(641,947)	-	-	894,378	(894,378)	-	-
New financial assets originated	31,611,942	-	-	31,611,942	29,031,926	-	-	29,031,926
Repayments and other movements	(24,645,614)	(1,098,407)	499,175	(25,244,846)	(16,890,785)	(7,521,203)	200,720	(24,211,268)
Write-offs	-	-	(646,371)	(646,371)	-	-	(1,450,105)	(1,450,105)
Gross carrying amount as at 31 December	57,261,500	5,141,967	3,151,181	65,554,648	52,564,482	4,661,971	2,607,470	59,833,923

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

	2019				2018			
	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
<i>Islamic financing and other investments measured at amortised cost</i>								
Gross carrying amount as at 1 January	12,196,796	682,884	175,631	13,055,311	8,804,299	370,873	281,422	9,456,594
Transfers								
Transfer from Stage 1 to Stage 2	(348,697)	348,697	-	-	(880,500)	880,500	-	-
Transfer from Stage 1 to Stage 3	(25,795)	-	25,795	-	(15,872)	-	15,872	-
Transfer from Stage 2 to Stage 3	-	(19,781)	19,781	-	-	(8,675)	8,675	-
Transfer from Stage 2 to Stage 1	15,519	(15,519)	-	-	-	-	-	-
Transfer from Stage 3 to Stage 2	-	-	-	-	-	8,087	(8,087)	-
New financial assets originated	9,023,025	-	-	9,023,025	8,871,018	-	-	8,871,018
Repayments and other movements	(7,142,113)	(464,109)	164,026	(7,442,196)	(4,582,149)	(567,901)	361	(5,149,689)
Write-offs	-	-	(50,793)	(50,793)	-	-	(122,612)	(122,612)
Gross carrying amount as at 31 December	13,718,735	532,172	334,440	14,585,347	12,196,796	682,884	175,631	13,055,311

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Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

	2019				2018			
	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
<i>Other assets</i>								
Gross carrying amount as at 1 January	-	803,517	389,262	1,192,779	-	1,490,201	489,410	1,979,611
Transfers	-	-	-	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(143,778)	143,778	-	-	-	-	-
Repayments and other movements	-	(62,095)	(73,810)	(135,905)	-	(686,684)	(100,148)	(786,832)
Gross carrying amount as at 31 December	-	597,644	459,230	1,056,874	-	803,517	389,262	1,192,779
<i>Acceptances</i>								
Gross carrying amount as at 1 January	9,731,526	50,603	-	9,782,129	5,961,270	418,548	-	6,379,818
Transfers	-	-	-	-	-	-	-	-
Transfer from Stage 1 to Stage 2	(150,146)	150,146	-	-	(48,560)	48,560	-	-
New financial assets originated	12,847,188	-	-	12,847,188	11,607,473	-	-	11,607,473
Repayments and other movements	(9,678,697)	(47,537)	-	(9,726,234)	(7,788,657)	(416,505)	-	(8,205,162)
Gross carrying amount as at 31 December	12,749,871	153,212	-	12,903,083	9,731,526	50,603	-	9,782,129

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit risk management (continued)

Gross carrying amount (continued)

	2019				2018			
	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
<i>Off-balance sheet items</i>								
At 1 January	51,406,203	4,349,289	-	55,755,492	46,527,745	6,550,867	-	53,078,612
Transfers								
Transfer from Stage 1 to Stage 2	(516,237)	516,237	-	-	(1,330,049)	1,330,049	-	-
Transfer from Stage 2 to Stage 3	-	(25,771)	25,771	-				
Transfer from Stage 2 to Stage 1	310,990	(310,990)	-	-	1,156,108	(1,156,108)	-	-
New financial assets originated	16,218,373	-	-	16,218,373	15,651,472	-	-	15,651,472
Repayments and other movements	(11,938,077)	(1,278,505)	(25,771)	(13,242,353)	(10,599,073)	(2,375,519)	-	(12,974,592)
At 31 December	55,481,252	3,250,260	-	58,731,512	51,406,203	4,349,289	-	55,755,492

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Credit 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 that 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 sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

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. The gross carrying amounts of modified financial assets held at 31 December 2019 and 2018 was not material.

Operational risk management

Operational risk is risk of loss resulting from inadequate or failed internal processes, systems, people or from external events. Mashreq's Operational risk framework outlines the approach and governance structure for monitoring and managing of operational risk.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Governance

Whilst the Bank 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;

- Business units form the first line of defence. They own the risk and have direct responsibility managing operational risk in their respective areas.
- Group Operational risk team is the second line of defence which provides policy, tools and infrastructure to assist business units in managing their risks; and
- Internal Audit is the third line of defence who provides independent assurance on the effectiveness of the risk management process.

The Board has oversight responsibilities for operational risk management. These responsibilities are exercised through the ERC, which is the senior Management forum responsible for the oversight of Operational Risk.

Regulatory capital requirement for operational risk capital is calculated on a quarterly basis. Mashreq has adopted The Standardized Approach (TSA) to determine its operational risk capital requirements.

Risk identification, monitoring and reporting

Mashreq's Operational risk framework consist of tools that assist in managing and measuring operational risk including:

Risk and control self-assessment (RCSA)

RCSA is the process of identifying, recording and assessing potential risks and related controls. It provides a framework and tools for management to:

- (a) Identify and prioritize their business objectives
- (b) Assess and manage key risks
- (c) Testing the effectiveness of controls, and
- (d) Developing action plans

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Incident management

The reporting of Operational risk incidents is a critical component of Mashreq'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 Mashreq 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 Mashreq Bank 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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.

In year 2019, VaR was calculated regularly and as of 31 December 2019 the 99% 1-day VaR was estimated at USD 7.06 million (31 December 2018: USD 13.99 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.

The Central Bank of U.A.E. published final guidelines on market risk management regulation along with market risk management standards in October 2018. These guidelines lay out detailed supervisory expectations relating to market risk governance, valuations, fair value adjustments, capital stress testing and reporting.

The Group is in the process of assessing the Group's market risk management framework in light of publication of market risk management regulation and standards by the Central Bank of U.A.E.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 profit over a 12 months period as at 31 December 2019 would be a decrease in profit by –4.18%(in case of decrease of interest rates) and would have been an increase in profit by +4.09% (in case of increase of interest rates) [31 December 2018: -3.01% and +3.04%] respectively.

During the year ended 31 December 2019, the effective interest rate on due from banks and certificates of deposits with central banks was 2.64% (31 December 2018: 2.11%), on loans and advances measured at amortised cost 5.69% (31 December 2018: 5.76%), on customers’ deposits 2.13% (31 December 2018: 1.73%) and on due to banks (including repurchase agreements) 2.08% (31 December 2018: 2.01%).

The following table depicts the interest rate sensitivity position and interest rate gap position based on contractual repricing arrangement:

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 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
Investment in associate	-	-	-	-	-	29,355	29,355
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 properties	-	-	-	-	-	473,591	473,591
Property and equipment	-	-	-	-	-	1,630,870	1,630,870
Total assets	80,676,684	12,234,404	4,997,192	12,802,984	12,205,037	36,514,682	159,430,983

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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							
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 2019 (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 2018							
Assets							
Cash and balances with central banks	9,507,378	-	-	-	-	10,640,448	20,147,826
Deposits and balances due from banks	13,333,474	5,175,117	1,022,504	477,817	-	3,000,256	23,009,168
Other financial assets measured at fair value	65,315	109,526	54,165	78,544	250,602	1,179,607	1,737,759
Other financial assets measured at amortised cost	1,852,407	571,952	1,251,847	5,179,061	2,825,967	-	11,681,234
Loans and advances measured at amortised cost	43,823,855	2,471,671	1,705,713	3,660,845	3,708,503	982,753	56,353,340
Islamic financing and investment products measured at amortised cost	11,412,427	133,400	156,306	621,486	297,469	295,167	12,916,255
Acceptances	-	-	-	-	-	9,782,129	9,782,129
Other assets	-	-	-	-	-	2,489,095	2,489,095
Reinsurance contract assets	-	-	-	-	-	2,472,798	2,472,798
Investment properties	-	-	-	-	-	489,885	489,885
Property and equipment	-	-	-	-	-	1,481,588	1,481,588
Total assets	<u>79,994,856</u>	<u>8,461,666</u>	<u>4,190,535</u>	<u>10,017,753</u>	<u>7,082,541</u>	<u>32,813,726</u>	<u>142,561,077</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 2018							
Liabilities and equity							
Deposits and balances due to banks	4,279,247	1,314,878	304,640	-	2,339	3,158,859	9,059,963
Repurchase agreements with banks	2,116,677	-	-	-	-	-	2,116,677
Customers' deposits	23,755,184	8,069,530	8,297,753	2,941,464	531,756	28,926,169	72,521,856
Islamic customers' deposits	2,907,440	520,324	1,490,878	1,411,289	16,700	4,350,076	10,696,707
Acceptances	-	-	-	-	-	9,782,129	9,782,129
Other liabilities	-	-	-	-	-	5,355,506	5,355,506
Medium-term loans	1,668,604	2,763,013	1,666,941	1,900,233	-	186,599	8,185,390
Insurance contract liabilities	-	-	-	-	-	4,077,160	4,077,160
Equity attributable to shareholders of the Parent	-	-	-	-	-	20,144,104	20,144,104
Non-controlling interest	-	-	-	-	-	621,585	621,585
Total liabilities and equity	<u>34,727,152</u>	<u>12,667,745</u>	<u>11,760,212</u>	<u>6,252,986</u>	<u>550,795</u>	<u>76,602,187</u>	<u>142,561,077</u>
On balance sheet gap	45,267,704	(4,206,079)	(7,569,677)	3,764,767	6,531,746	(43,788,461)	-
Off balance sheet gap	2,698,369	(2,691,147)	(85,342)	71,162	6,958	-	-
Cumulative interest rate sensitivity gap	<u>47,966,073</u>	<u>41,068,847</u>	<u>33,413,828</u>	<u>37,249,757</u>	<u>43,788,461</u>	<u>-</u>	<u>-</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 2019			31 December 2018		
	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	15,195,469	(10,245,720)	4,949,749	9,228,977	(7,694,809)	1,534,168
Qatari Riyals	1,185,710	(191,499)	994,211	1,371,169	230,090	1,601,259
Pound Sterling	(797,850)	804,460	6,610	(484,676)	516,253	31,577
Euro	(1,721,979)	1,778,039	56,060	(1,965,996)	1,717,182	(248,814)
Bahrain Dinar	47,168	(1,587)	45,581	1,522	(3,223)	(1,701)
Saudi Riyal	(6,116,802)	6,112,073	(4,729)	(3,565,828)	3,568,814	2,986
Japanese Yen	(1,005,238)	1,016,843	11,605	(806,483)	822,812	16,329
Swiss Francs	153	7	160	(183,715)	186,616	2,901
Kuwaiti Dinar	236,062	(156,647)	79,415	221,211	(156,394)	64,817
Chinese Yuan	(888,485)	888,453	(32)	(324,377)	324,544	167
Other	789,736	63,670	853,406	640,173	75,968	716,141
Total	6,923,944	68,092	6,992,036	4,131,977	(412,147)	3,719,830

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 2019 (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 finance 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, Mashreqbank 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 2019 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Mashreq's Board of Directors ("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. The Bank's Chief Executive Officer, is primarily responsible for the oversight of Liquidity management within the Bank on a regular basis.

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 assets and liabilities structure and funding strategy. ALCOs meet on a monthly basis or more often if required 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. 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, Chief Credit 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 stress tests.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 2019 has an outstanding balance of AED 11.84 billion (31 December 2018: AED 8.19 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 2018.

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 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 on an annual basis.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

f) FTP Frame work for allocating liquidity costs, benefits and risks to all business activities

Mashreq has a well-developed FTP policy and system that aims to create transparency in profitability and insulate BUs from interest rate risk and liquidity risk.

g) Regular Internal as well as CBUAE audits focused on HQLA cushion and Liquidity management policies and procedures

Mashreq liquidity policies, procedures and systems are subject to end to end review both internally by the internal audit as well as by the CBUAE.

The Central bank of UAE through its circular no. 33/2015 dated 27 May 2015 announced new 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 2019 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

The following table summarises the maturity profile of Group's assets and liabilities based on contractual undiscounted repayment obligations. 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 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
Investment in associate	-	-	-	-	29,355	29,355
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 properties	-	-	-	-	473,591	473,591
Property and equipment	-	-	-	-	1,630,870	1,630,870
Total assets	67,997,634	18,695,671	18,937,969	27,143,194	26,656,515	159,430,983

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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	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 2019 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2018 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	20,147,826	-	-	-	-	20,147,826
Deposits and balances due from banks	14,912,292	5,239,501	2,059,706	797,669	-	23,009,168
Other financial assets measured at fair value	367,643	116,785	102,002	95,185	1,056,144	1,737,759
Other financial assets measured at amortised cost	2,026,547	386,165	1,251,844	5,263,867	2,752,811	11,681,234
Loans and advances measured at amortised cost	17,585,237	4,315,906	3,594,079	16,364,654	14,493,464	56,353,340
Islamic financing and investment products measured at amortised cost	5,543,099	929,349	230,414	2,929,115	3,284,278	12,916,255
Acceptances	2,353,377	3,592,668	3,835,391	693	-	9,782,129
Other assets	1,373,658	326,714	324,347	401,410	62,966	2,489,095
Reinsurance contract assets	-	-	2,467,987	4,811	-	2,472,798
Investment properties	-	-	-	-	489,885	489,885
Property and equipment	-	-	-	-	1,481,588	1,481,588
Total assets	64,309,679	14,907,088	13,865,770	25,857,404	23,621,136	142,561,077

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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	6,839,041	1,425,068	304,640	488,875	2,339	9,059,963
Repurchase agreements with banks	2,116,677	-	-	-	-	2,116,677
Customers' deposits	53,050,506	8,280,620	8,658,843	3,143,330	576,230	73,709,529
Islamic customers' deposits	7,255,915	534,421	1,608,298	1,491,835	21,140	10,911,609
Acceptances	2,353,377	3,592,668	3,835,391	693	-	9,782,129
Other liabilities	3,848,388	525,063	587,010	340,226	54,819	5,355,506
Medium-term loans	1,668,629	2,768,126	1,964,243	2,110,164	-	8,511,162
Insurance contract liabilities	-	-	3,579,134	498,026	-	4,077,160
Equity attributable to shareholders of the Parent	-	-	-	-	20,144,104	20,144,104
Non-controlling interest	-	-	-	-	621,585	621,585
Total liabilities and equity	<u>77,132,533</u>	<u>17,125,966</u>	<u>20,537,559</u>	<u>8,073,149</u>	<u>21,420,217</u>	<u>144,289,424</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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.

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 2019 (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 10.58 million (2018: AED 11.28 million).

Compliance Risk

Contingent liability

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 is proactively cooperating with the UAE and the US regulators in this regard and has appointed external legal advisors to assist in the reviewing 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 are currently in the process of reviewing the Bank's submission and it is, therefore, premature to determine if the Bank will be subject to any penalties or the quantum thereof.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 2018.

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 2019 (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
	2019 AED'000	2018 AED'000				
Other financial assets measured at FVTPL						
Quoted debt investments	196,516	20,724	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	14,990	10,752	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	679,779	207,194	Level 2	Based on the recent similar transaction in market	None	Not Applicable
Unquoted debt investments	-	55,095	Level 3	Based on discounted cash flow model	Interest rate	Change in interest rate will impact the value of the bond.
Mutual and other funds	599,310	597,921	Level 2	Quoted prices in secondary market.	None	Not Applicable
Unquoted equity investments	245	220	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.
	1,490,840	891,906				

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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
	2019 AED'000	2018 AED'000				
Other financial assets measured at FVTOCI						
Quoted equity investments	501,480	356,824	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	561,693	-	Level 3	Based on the recent similar transaction in market	None	Not Applicable
Quoted debt investments	1,904,560	296,160	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	63,593	192,869	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.
	3,031,326	845,853				
	4,522,166	1,737,759				

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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

	2019 AED'000	2018 AED'000
At 1 January	55,315	60,058
Purchases	-	-
Disposals/matured	-	-
Change in fair value	(55,070)	(4,743)
At 31 December	245	55,315

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTOCI

	2019 AED'000	2018 AED'000
At 1 January	192,869	259,886
Purchases	563,842	-
Disposals/matured	(153,087)	(7,569)
Change in fair value	21,662	(59,448)
At 31 December	625,286	192,869

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 2019 (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	Level 1 AED'000	Fair value		Total AED'000
			Level 2 AED'000	Level 3 AED'000	
31 December 2019					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	<u>10,875,153</u>	<u>8,628,850</u>	<u>1,140,947</u>	<u>1,327,665</u>	<u>11,097,462</u>
31 December 2018					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	<u>11,681,234</u>	<u>7,436,644</u>	<u>2,486,579</u>	<u>1,581,627</u>	<u>11,504,850</u>
	Carrying Amount AED'000	Level 1 AED'000	Fair value		Total AED'000
			Level 2 AED'000	Level 3 AED'000	
31 December 2019					
<i>Financial liabilities</i>					
Medium-term notes	<u>11,838,757</u>	<u>10,034,486</u>	<u>-</u>	<u>1,970,522</u>	<u>12,005,008</u>
31 December 2018					
<i>Financial liabilities</i>					
Medium-term notes	<u>8,185,390</u>	<u>6,960,601</u>	<u>-</u>	<u>1,226,329</u>	<u>8,186,930</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2019 (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 2019 and 31 December 2018:

	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 2019				
Other financial assets measured at fair value	<u>14,908</u>	<u>(14,908)</u>	<u>30,313</u>	<u>(30,313)</u>
31 December 2018				
Other financial assets measured at fair value	<u>8,919</u>	<u>(8,919)</u>	<u>8,459</u>	<u>(8,459)</u>

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 214 million as at 31 December 2019 (31 December 2018: AED 113 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 2019.

46 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2019 were approved by the Board of Directors and authorised for issue on 3 February 2020.