Mashreqbank PSC Group

Condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020

Mashreqbank PSC Group

Review report and condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020

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Review report on condensed consolidated interim financial information to the Directors of Mashreqbank PSC

Introduction

We have reviewed the accompanying condensed consolidated statement of financial position of Mashreqbank PSC (the "Bank") and its subsidiaries (together referred to as the "Group") as at 30 September 2020 and the related condensed consolidated statements of profit or loss and other comprehensive income for the three-month and nine-month periods then ended, and the condensed consolidated statements of changes in equity and cash flows for the nine-month period then ended and other explanatory information. The directors are responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard 34 – Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity." A review of the condensed consolidated interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34, "Interim Financial Reporting".

PricewaterhouseCoopers
9 November 2020

Douglas O'Mahony
Registered Auditor Number 834
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Mashreqbank PSC Group

Condensed consolidated statement of financial position as at 30 September 2020

	Notes	30 September 2020 (un-audited) AED '000	31 December 2019 (audited) AED '000
ASSETS			
Cash and balances with central banks		**26,186,509**	20,939,700
Deposits and balances due from banks		**28,867,085**	26,565,848
Other financial assets measured at fair value	6	**6,678,803**	4,522,166
Other financial assets measured at amortised cost	6	**10,738,622**	10,875,153
Investment in associate		**20,996**	29,355
Loans and advances measured at amortised cost	7	**59,051,017**	61,710,277
Islamic financing and investment products measured at amortised cost	8	**14,890,985**	14,456,757
Acceptances		**14,912,257**	12,903,083
Other assets		**3,303,539**	2,738,265
Reinsurance contract assets		**2,862,636**	2,585,918
Investment properties	9	**473,591**	473,591
Property and equipment	10	**1,738,281**	1,630,870
Total assets		**169,724,321**	159,430,983
LIABILITIES AND EQUITY			
LIABILITIES			
Deposits and balances due to banks	11	**14,662,037**	11,184,496
Repurchase agreements with banks		**3,516,135**	1,088,537
Customers' deposits	12	**81,987,031**	76,439,572
Islamic customers' deposits	13	**12,728,550**	14,529,261
Acceptances		**14,912,257**	12,903,083
Other liabilities		**5,255,229**	4,950,558
Medium-term notes	14	**10,168,123**	11,838,757
Insurance and life assurance funds		**4,768,425**	4,253,789
Total liabilities		**147,997,787**	137,188,053
EQUITY			
Capital and reserves			
Issued and paid up capital	15	**1,775,308**	1,775,308
Statutory and legal reserves		**912,099**	907,714
General reserve		**312,000**	312,000
Currency translation reserve		**(103,499)**	(88,720)
Investments revaluation reserve		**(409,040)**	(273,595)
Cash flow hedge reserve		**(266)**	4,292
Retained earnings		**18,515,937**	18,895,583
Equity attributable to owners of the Parent		**21,002,539**	21,532,582
Non-controlling interests	16	**723,995**	710,348
Total equity		**21,726,534**	22,242,930
Total liabilities and equity		**169,724,321**	159,430,983

To the best of our knowledge, the condensed consolidated interim financial information present fairly in all material respects the financial condition, results of operation and cashflows of the Group as of, and for, the periods presented therein.

Abdul Aziz Abdulla Al Ghurair
Chairman

Ahmed Abdelaal
Group Chief Executive Officer

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Mashreqbank PSC Group

Condensed consolidated statement of profit or loss for the period from 1 January 2020 to 30 September 2020 (un-audited)

		For the three month period ended 30 September		For the nine month period ended 30 September	
	Notes	**2020**	**2019**	**2020**	**2019**
		AED '000	**AED '000**	**AED '000**	**AED '000**
Interest income		**1,004,347**	1,427,228	**3,510,197**	4,385,420
Income from Islamic financing and investment products		**132,988**	193,896	**445,769**	569,643
Total interest income and income from Islamic financing and investment products		**1,137,335**	1,621,124	**3,955,966**	4,955,063
Interest expense		**(506,572)**	(651,553)	**(1,683,255)**	(1,980,574)
Distribution to depositors – Islamic products		**(69,726)**	(71,644)	**(212,864)**	(226,924)
Net interest income and income from Islamic products net of distribution to depositors		**561,037**	897,927	**2,059,847**	2,747,565
Fee and commission income		**632,950**	695,556	**1,939,212**	2,149,831
Fee and commission expense		**(350,330)**	(367,494)	**(1,003,720)**	(1,111,767)
Net fee and commission income		**282,620**	328,062	**935,492**	1,038,064
Net investment income		**67,372**	56,179	**289,033**	110,671
Other income, net		**229,200**	170,210	**686,736**	630,023
Operating income		**1,140,229**	1,452,378	**3,971,108**	4,526,323
General and administrative expenses	17	**(629,089)**	(677,350)	**(1,883,858)**	(1,993,671)
Operating profit before impairment		**511,140**	775,028	**2,087,250**	2,532,652
Allowances for impairment, net		**(664,527)**	(223,052)	**(1,642,851)**	(704,771)
Profit/(loss) before tax		**(153,387)**	551,976	**444,399**	1,827,881
Tax expense		**(11,511)**	(2,085)	**(32,976)**	(15,787)
Profit/(loss) for the period		**(164,898)**	549,891	**411,423**	1,812,094
Attributed to:					
Owners of the Parent		**(183,106)**	535,752	**352,024**	1,757,389
Non-controlling interests		**18,210**	14,139	**59,399**	54,705
		(164,898)	549,891	**411,423**	1,812,094
Earnings per share (AED)	18	**(1.03)**	3.02	**1.98**	9.90

Mashreqbank PSC Group

Condensed consolidated statement of other comprehensive income for the period from 1 January 2020 to 30 September 2020 (un-audited)

	For the three month period ended 30 September		For the nine month period ended 30 September	
	2020	**2019**	**2020**	**2019**
	AED ’000	**AED ’000**	**AED ’000**	**AED ’000**
Profit/(loss) for the period	**(164,898)**	549,891	**411,423**	1,812,094
Other comprehensive income				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments)	**14,255**	(25,551)	**(82,239)**	42,986
Items that may be reclassified subsequently to profit or loss:				
Changes in currency translation reserve	**(21)**	(6,442)	**(18,323)**	(6,457)
Changes in fair value of financial assets measured at fair value through other comprehensive income (debt instruments)	**(64,237)**	(2,790)	**(91,571)**	4,909
Cash flow hedges - fair value (loss)/gain arising during the period	**(18)**	532	**(4,558)**	9,001
Total other comprehensive (loss)/ income for the period	**(50,021)**	(34,251)	**(196,691)**	50,439
Total comprehensive income/(loss) for the period	**(214,919)**	515,640	**214,732**	1,862,533
Attributed to:				
Owners of the Parent	**(238,180)**	505,486	**180,080**	1,795,525
Non-controlling interests	**23,261**	10,154	**34,652**	67,008
	(214,919)	515,640	**214,732**	1,862,533

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity for the period from 1 January 2020 to 30 September 2020 (un-audited)

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cashflow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,481,156	20,144,104	621,585	20,765,689
Changes on initial application of IFRS 16	-	-	-	-	-	-	(5,937)	(5,937)	(49)	(5,986)
Restated balance 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 period	-	-	-	-	-	-	1,757,389	1,757,389	54,705	1,812,094
Other comprehensive income/(loss)	-	-	-	(5,656)	34,791	9,001	-	38,136	12,303	50,439
Total comprehensive income/(loss) for the period	-	-	-	(5,656)	34,791	9,001	1,757,389	1,795,525	67,008	1,862,533
Payment of dividends (Note 15)	-	-	-	-	-	-	(710,123)	(710,123)	-	(710,123)
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	(72,692)	-	72,692	-	-	-
Transfer to statutory and legal reserves	-	3,837	-	-	-	-	(3,837)	-	-	-
Balance at 30 September 2019	1,775,308	907,714	312,000	(87,036)	(280,634)	4,877	18,591,340	21,223,569	688,544	21,912,113

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Mashreqbank PSC Group

Condensed consolidated statement of changes in equity for the period from 1 January 2020 to 30 September 2020 (un-audited)

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cashflow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2020	**1,775,308**	**907,714**	**312,000**	**(88,720)**	**(273,595)**	**4,292**	**18,895,583**	**21,532,582**	**710,348**	**22,242,930**
Profit for the period	**-**	**-**	**-**	**-**	**-**	**-**	**352,024**	**352,024**	**59,399**	**411,423**
Other comprehensive loss	**-**	**-**	**-**	**(14,779)**	**(152,607)**	**(4,558)**	**-**	**(171,944)**	**(24,747)**	**(196,691)**
Total comprehensive income/(loss) for the period	**-**	**-**	**-**	**(14,779)**	**(152,607)**	**(4,558)**	**352,024**	**180,080**	**34,652**	**214,732**
Payment of dividends (Note 15)	**-**	**-**	**-**	**-**	**-**	**-**	**(710,123)**	**(710,123)**	**-**	**(710,123)**
Transfer from investments revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**17,162**	**-**	**(17,162)**	**-**	**-**	**-**
Transfer to statutory and legal reserves	**-**	**4,385**	**-**	**-**	**-**	**-**	**(4,385)**	**-**		**-**
Payment to non-controlling interest (NCI)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(21,005)**	**(21,005)**
Balance at 30 September 2020	**1,775,308**	**912,099**	**312,000**	**(103,499)**	**(409,040)**	**(266)**	**18,515,937**	**21,002,539**	**723,995**	**21,726,534**

The accompanying notes form an integral part of this condensed consolidated interim financial information.

Mashreqbank PSC Group

Condensed consolidated statement of cash flows for the period from 1 January 2020 to 30 September 2020 (un-audited)

	For the nine month period ended 30 September	
	2020	**2019**
	AED '000	**AED '000**
Cash flows from operating activities		
Profit before taxation for the period	**444,399**	1,827,881
Adjustments for:		
Depreciation of property and equipment	**166,246**	120,444
Allowance for impairment, net	**1,642,851**	704,771
Loss/(gain) on disposal of property and equipment	**515**	(306)
Unrealised loss on other financial assets held at Fair Value Through Profit or Loss (FVTPL)	**2,024**	12,348
Unrealised loss on derivatives	**27,046**	23,185
Dividend income from financial assets measured at FVTOCI	**(23,443)**	(22,766)
Realised gain on disposal of other financial assets	**(267,131)**	(99,463)
Share of loss from associate	**8,359**	-
Fair value adjustment of property and equipment	**-**	3,250
Loss on sale of investment property	**-**	600
Changes in operating assets and liabilities		
Increase in deposits with central banks	**(2,677,909)**	(2,743,879)
(Increase)/decrease in deposits and balances due from banks maturing after three months	**(3,250,025)**	2,414,190
Decrease/(increase) in other financial assets measured at FVTPL	**111,106**	(676,083)
Decrease/(increase) in loans and advances measured at amortised cost	**1,121,748**	(2,198,330)
Increase in Islamic financing and investment products measured at amortised cost	**(515,748)**	(1,382,954)
Increase in other assets	**(607,903)**	(2,986,850)
Increase in reinsurance contract asset	**(276,718)**	(1,941)
Increase in deposits and balances due to banks	**3,477,542**	171,523
Increase in customers' deposits	**5,547,459**	1,569,350
Decrease in Islamic customers' deposits	**(1,800,711)**	(679,337)
Increase in insurance and life assurance funds	**514,636**	169,518
Increase in other liabilities	**304,670**	3,002,879
Increase/(decrease) in repurchase agreements with banks	**2,427,598**	(1,738,612)
Taxes paid	**(32,976)**	(15,787)
Net cash generated from/(used in) operating activities	**6,343,635**	(2,526,369)
Cash flows from investing activities		
Purchase of property and equipment	**(283,352)**	(254,074)
Proceeds from sale of property and equipment	**8,392**	6,166
Proceeds from sale of investment property	**-**	2,450
Net (increase)/decrease in non-trading investments	**(2,069,762)**	320,613

Condensed consolidated statement of cash flows for the period from 1 January 2020 to 30 September 2020 (un-audited) (continued)

	For the nine month period ended 30 September	
	2020	**2019**
	AED ’000	**AED ’000**
Dividend income received from other financial assets measured at FVTOCI	**23,443**	22,766
Payment to NCI	**(21,005)**	-
Net cash (used in)/generated from investing activities	**(2,342,284)**	97,921
Cash flows from financing activities		
Dividends paid	**(710,123)**	(710,123)
Medium term notes issued during the period	**2,309,732**	8,906,409
Medium term notes redeemed during the period	**(3,980,366)**	(5,616,797)
Net cash (used in)/generated from financing activities	**(2,380,757)**	2,579,489
Net increase in cash and cash equivalents	**1,620,594**	151,041
Net foreign exchange difference	**14,779**	(5,656)
Cash and cash equivalents at beginning of the period (Note 19)	**22,766,807**	28,804,383
Cash and cash equivalents at end of the period (Note 19)	**24,402,180**	28,949,768

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020

1 General information

Mashreqbank PSC (the "Bank") was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank operates through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America. The address of the Bank's registered office is P.O. Box 1250, Dubai, United Arab Emirates.

At 30 September 2020, Mashreqbank PSC Group (the "Group") comprises of the Bank and the following direct subsidiaries and associates:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Proportion of voting power held %	Principal activity
Subsidiary				
Oman Insurance Company (PSC) Group	United Arab Emirates	63.94	63.94	Insurance & reinsurance
Mindscape FZ LLC	United Arab Emirates	100.00	100.00	IT services
Mashreq Securities LLC	United Arab Emirates	99.98	99.98	Brokerage
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	100.00	Brokerage and asset & fund management
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	99.80	Islamic finance company
Injaz Services FZ LLC	United Arab Emirates	100.00	100.00	Service provider
Makaseb Funds Company BSC	Kingdom of Bahrain	99.90	99.90	Fund manager
Makaseb Funds Company BSC II	Kingdom of Bahrain	99.90	99.90	Fund manager
Invictus Limited	Cayman Islands	100.00	100.00	Special purpose vehicle
Al Taqania Employment Services One Person Company LLC	United Arab Emirates	100.00	100.00	Employment Services
Al Kafaat Employment Services One Person Company LLC	United Arab Emirates	100.00	100.00	Employment Services
Shorouq Commodities Trading DMCC	United Arab Emirates	100.00	100.00	Trading
IDFAA Payment Services LLC	United Arab Emirates	100.00	100.00	Payment service provider
Osool – A Finance Company (PJSC)	United Arab Emirates	98.00	98.00	Finance
Associate				
Emirates Digital Wallet LLC	United Arab Emirates	23.22	23.22	Digital wallet service

2 Application of new and revised International Financial Reporting Standards ("IFRS")

2.1 New and revised IFRS adopted in the condensed consolidated interim financial information

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2020, have been adopted in this interim financial information. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior periods.

- **Amendments to IFRS 3 -** This amendment revises the definition of a business. According to feedback received by the IASB, application of the current guidance is commonly thought to be too complex, and it results in too many transactions qualifying as business combinations.

- **Amendments to IAS 1 and IAS 8** - These amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors', and consequential amendments to other IFRSs: i) use a consistent definition of materiality throughout IFRSs and the Conceptual Framework for Financial Reporting; ii) clarify the explanation of the definition of material; and iii) incorporate some of the guidance in IAS 1 about immaterial information.

- **Amendments to IFRS 9, IAS 39 and IFRS 7 – Interest rate benchmark reform -** These amendments provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR based contracts, the reliefs will affect companies in all industries.

2 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.1 New and revised IFRS adopted in the condensed consolidated interim financial information (continued)

- **Amendments to Conceptual framework –** The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from 1 January 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

- **Amendment to IFRS 16, 'Leases' – Covid-19 related rent concessions** - As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. Such concessions might take a variety of forms, including payment holidays and deferral of lease payments. On 28 May 2020, the IASB published an amendment to IFRS 16 that provides an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

2 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 New and revised IFRS in issue but not yet effective and not early adopted

New and revised IFRS	Effective for annual periods beginning on or after
• **IFRS 17, 'Insurance contracts'** - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.	1 January 2023
• **Amendments to IAS 1, Presentation of financial statements' on classification of liabilities** - These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	1 January 2022

2 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

New and revised IFRS	Effective for annual periods beginning on or after
• **Narrow-scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 9 and IFRS 16** Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'.	1 January 2022

2 Application of new and revised International Financial Reporting Standards ("IFRS") (continued)

2.2 New and revised IFRS in issue but not yet effective and not early adopted (continued)

New and revised IFRS	Effective for annual periods beginning on or after
• **Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark (IBOR) reform** The Phase 2 amendments that were issued on 27 August 2020 address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform (for example, where lease payments are indexed to an IBOR rate). The Group is running a project on the transition activities involving major stakeholders to ensure smooth and timely transition in accordance with interest rate benchmark (IBOR) reform. This is a significant project which has an impact on the Banks existing products, systems and processes.	1 January 2021

The Group is currently assessing the impact of these standards, interpretations and amendments on the future financial statements and intends to adopt these, if applicable, when they become effective.

3 Summary of significant accounting policies

3.1 Basis of preparation

This condensed consolidated interim financial information of the Group is prepared under the historical cost basis except for certain financial instruments, including derivatives, investment properties and reserves for unit linked policies which are measured at fair value.

This condensed consolidated interim financial information is prepared in accordance with International Accounting Standard 34: *Interim Financial Reporting* ("IAS 34"), issued by the International Accounting Standard Board ('IASB') and also comply with the applicable requirements of the laws in the U.A.E.

The accounting policies used in the preparation of this condensed consolidated interim financial information is consistent with those used in the audited annual consolidated financial statements for the year ended 31 December 2019.

This condensed consolidated interim financial information does not include all the information and disclosures required in full consolidated financial statements and should be read in conjunction with the Group's consolidated financial statements for the year ended 31 December 2019. In addition, results for the period from 1 January 2020 to 30 September 2020 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2020.

As required by the Securities and Commodities Authority of the U.A.E. ("SCA") Notification No. 2624/2008 dated 12 October 2008, accounting policies relating to financial assets, cash and cash equivalents, Islamic financing and investing assets and investment properties have been disclosed in the condensed consolidated financial information.

3.2 Basis of consolidation

This condensed consolidated interim financial information incorporates the financial information of the Bank and entities controlled by the Bank. Control is achieved where the Bank has the power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor's returns.

The condensed consolidated interim financial information comprises the financial information of the Bank and of the subsidiaries as disclosed in Note 1. The financial information of the subsidiaries are prepared for the same reporting period as that of the Bank, using consistent accounting policies.

3 Summary of significant accounting policies (continued)

3.3 Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

All recognised financial assets are subsequently measured in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

For financial assets or financial liabilities not at fair value through profit or loss, at initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus transactions costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fee and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance ('ECL') is recognized for financial assets measured at amortised cost and investment in debt instruments measured as FVTOCI, which results in an accounting loss being recognized in profit or loss when an asset is newly originated.

Classification of financial assets

For the purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'. Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and government and corporate bonds.

Debt instruments, including loans and advances and Islamic financing and investments products, are measured at amortised cost if both of the following conditions are met:

(i) the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
(ii) the contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest/profit on the principal amount outstanding.

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

All other financial assets are subsequently measured at fair value.

Based on these factors, the Group classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and Interest (‘SPPI’), and that are not designated at fair value through profit or loss (‘FVTPL’), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized.

- Fair value through other comprehensive income (‘FVTOCI’): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets’ cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVTOCI. Movement in carrying amount are taken through Other Comprehensive Income (‘OCI’), except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments’ amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in ‘Net investment income’.

- Fair value through profit or loss (‘FVTPL’): Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within ‘Net investment income’ in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in ‘Net investment income’.

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

Business model: the business model reflects how the Group manages the assets in order to generate cash flows. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Group in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed, and how managers are compensated.

SPPI: Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Group considers whether contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and an interest rate that is consistent with basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

Classification of financial assets (continued)

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as net investment income when the Group's right to receive payments is established.

Amortised cost and effective interest method

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees paid or received that are integral to the effective interest rate, such as origination fees.

When the Group revises the estimates of future cash flows, the carrying amount of the respective financial asset or financial liability is adjusted to reflect the new estimate discounted using original effective interest rate. Any changes are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(i) Impairment

The Group assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVTOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Group recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

(ii) Modification of loans

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

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

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

If the terms are not substantially different, the renegotiation or modification does not result in the derecognition, and the Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss.

3 Summary of significant accounting policies (continued)

3.3 Financial assets (continued)

(ii) Modification of loans (continued)

The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate.

(iii) Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognized when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either (i) the Group transfers substantially all the risks and rewards of ownerships, or (ii) the Group neither transfers nor retains substantially all the risks and rewards of ownership and the Group has not retained control. The Group enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as ‘pass through’ transfers that result in derecognition if the Group:

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

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

3.4 Financial liabilities

Classification and subsequent measurement

Financial liabilities (including deposits and balances due to banks, repurchase agreements with banks, medium term loans and customer deposits) are initially recognised at fair value and subsequently measured at amortised cost, except for:

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

3 Summary of significant accounting policies (continued)

3.4 Financial liabilities (continued)

Classification and subsequent measurement (continued)

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Derecognition

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

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

3.5 Financial guarantee contracts and loan commitments

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holders for a loss they incur because a specified debtor fails to make payment when due, in accordance with the terms of a debt instrument. Loan commitments are irrevocable commitments to provide credit under pre-specified terms and conditions.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Loan commitments provided by the Group are measured as the amount of the loss allowance.

3 Summary of significant accounting policies (continued)

3.6 Foreign exchange gains and losses

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the end of each reporting period. The foreign exchange component forms part of its fair value gain or loss. Therefore,

- for financial assets that are classified as at FVTPL, the foreign exchange component is recognised in the condensed consolidated interim statement of profit or loss;
- for financial assets that are monetary items and designated as at FVTOCI, any foreign exchange component is recognized in consolidated statement of profit or loss;
- for financial assets that are non-monetary items and designated as at FVTOCI, any foreign exchange component is recognised in the consolidated statement of comprehensive income; and
- for foreign currency denominated debt instruments measured at amortised cost at the end of each reporting period, the foreign exchange gains and losses are determined based on the amortised cost of the financial assets and are recognised in the consolidated statement of profit or loss.

3.7 Islamic financing and investment products

In addition to conventional banking products, the Group offers its customers certain non-interest based banking products, which are approved by its Shari'ah Supervisory Board.

Any conventional terminologies that are used only for reasons of legal requirement, explanation and/or clarity will be considered as replaced with its Shari'ah compliant equivalent and will not impact the Islamic products or documentation in terms of their Shari'ah compliance. All Islamic banking products are accounted for in conformity with the accounting policies described below:

(i) Accounting policy

Islamic financing and investing products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income.

The effective profit rate is the rate that exactly discounts estimated future cash flows through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

Allowance for impairment is made against Islamic financing and investing products is measured in accordance with note 3.3(i). Islamic financing and investing products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

(ii) Revenue recognition policy

Income from Islamic financing and investing assets are recognised in the condensed consolidated statement of profit or loss using the effective profit method.

3 Summary of significant accounting policies (continued)

3.7 Islamic financing and investment products (continued)

(ii) Revenue recognition policy (continued)

The calculation of the effective profit rate includes all fees paid or received, transaction costs, and discounts or premiums that are an integral part of the effective profit rate. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset.

(iii) Islamic customers' deposits and distributions to depositors

Islamic customers' deposits are initially measured at fair value which is normally consideration received net of directly attributable transaction costs incurred, and subsequently measured at their amortised cost using the effective profit method.

Distributions to depositors (Islamic products) are calculated according to the Group's standard procedures and are approved by the Group's Sharia'a Supervisory Board.

3.8 Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation including property under construction for such purposes. Investment properties are measured initially at cost, including transaction costs. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are measured at fair value, which reflects market conditions at the reporting date. Gains and losses arising from changes in the fair value of investment properties are included in the condensed consolidated statement of profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the condensed consolidated profit or loss in the period in which the property is derecognised.

Transfer is made to or from investment property only when there is a change in use evidenced by the end of owner-occupation or commencement of an operating lease to another party. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of the change in use. Fair value is determined by open market values based on valuations performed by independent surveyors and consultants or broker's quotes.

3 Summary of significant accounting policies (continued)

3.9 Leasing

The group leases various branches, offices and premises for ATMs. Rental contracts are typically made for fixed periods of 12 months to 5 years, but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

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

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

- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date less any lease incentives received

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

3.10 Financial risk management

The Group’s financial risk management objectives and policies are consistent with those disclosed in the consolidated financial statements for the year ended 31 December 2019, except for those matters described in note 4.2.

3.11 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and other balances with the 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 Risk management

4.1 Credit risk

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.

Credit risk is the single largest risk from the Group's business; management therefore carefully manages its exposure to credit risk. There is an independent credit risk function for lending approvals and operational aspects of credit process reporting to the CEO of the Bank. The policy making and monitoring is centralized in a risk management department which is independent of credit approval and works under direct supervision of Enterprise Risk Management committee and Board Risk committee.

4 Risk management (continued)

4.1 Credit risk (continued)

(i) The following tables explains the changes in the gross carrying for loans and advances (including Islamic financing and investment products measured) at amortised cost:

	30 September 2020 (un-audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
	AED (in million)			
Gross carrying amount as at 1 January	**70,979**	**5,674**	**3,486**	**80,139**
Transfers				
Transfer from Stage 1 to Stage 2	**(4,553)**	**4,553**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(332)**	**-**	**332**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(967)**	**967**	**-**
Transfer from Stage 2 to Stage 1	**181**	**(181)**	**-**	**-**
New financial assets originated	**39,770**	**-**	**-**	**39,770**
Repayments and other movements	**(38,371)**	**(2,151)**	**152**	**(40,370)**
Write-offs	**-**	**-**	**(919)**	**(919)**
Gross carrying amount as at 30 September	**67,674**	**6,928**	**4,018**	**78,620**

	2019 (audited)			
	Stage 1 12-month	Stage 2 Lifetime	Stage 3 Lifetime	Total
	AED (in million)			
Gross carrying amount as at 1 January	64,761	5,345	2,783	72,889
Transfers				
Transfer from Stage 1 to Stage 2	(2,951)	2,951	-	-
Transfer from Stage 1 to Stage 3	(335)	-	335	-
Transfer from Stage 2 to Stage 3	-	(421)	421	-
Transfer from Stage 3 to Stage 2	-	19	(19)	-
Transfer from Stage 2 to Stage 1	657	(657)	-	-
New financial assets originated	40,635	-	-	40,635
Repayments and other movements	(31,788)	(1,563)	663	(32,688)
Write-offs	-	-	(697)	(697)
Gross carrying amount as at 31 December	70,979	5,674	3,486	80,139

Notes to the condensed consolidated interim financial information for the period from 1 January 2020 to 30 September 2020 (continued)

4 Risk management (continued)

4.1 Credit risk (continued)

(ii) The following tables explain the changes in the loss allowance for loans and advances (including Islamic financing and investment products) measured at amortised cost:

	30 September 2020 (un-audited)			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Loss allowance as at 1 January	**476**	**1,505**	**1,993**	**3,974**
Transfers				
Transfer from Stage 1 to Stage 2	**(396)**	**396**	**-**	**-**
Transfer from Stage 1 to Stage 3	**(27)**	**-**	**27**	**-**
Transfer from Stage 2 to Stage 1	**1**	**(1)**	**-**	**-**
Transfer from Stage 2 to Stage 3	**-**	**(92)**	**92**	**-**
New financial assets originated	**536**	**-**	**-**	**536**
Changes in PDs/LGDs/EADs	**(93)**	**(29)**	**1,210**	**1,088**
Write-offs	**-**	**-**	**(919)**	**(919)**
Loss allowance as at 30 September	**497**	**1,779**	**2,403**	**4,679**

	31 December 2019 (audited)			
	Stage 1 12-month	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Gross carrying amount as at 1 January	445	1,518	1,656	3,620
Transfers				
Transfer from Stage 1 to Stage 2	(68)	68	-	-
Transfer from Stage 1 to Stage 3	(14)	-	14	-
Transfer from Stage 2 to Stage 3	-	(46)	46	-
Transfer from Stage 3 to Stage 2	-	2	(2)	-
Transfer from Stage 2 to Stage 1	11	(11)	-	-
New financial assets originated	332	-	-	332
Changes in PDs/LGDs/EADs	(230)	(26)	975	719
Write-offs	-	-	(697)	(697)
Gross carrying amount as at 31 December	476	1,505	1,993	3,974

4 Risk management (continued)

4.1 Credit risk (continued)

(iii) The credit risk exposures relating to off-balance sheet items (LCs & LGs) are as follows:

	30 September 2020 (un-audited)			
Off-balance sheet items	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Guarantees	**37,659**	**4,538**	**-**	**42,197**
Letters of credit	**6,982**	**1,333**	**-**	**8,315**
	44,641	**5,871**	**-**	**50,512**

	31 December 2019 (audited)			
Off-balance sheet items	**Stage 1 12-month**	**Stage 2 Lifetime**	**Stage 3 Lifetime**	**Total**
	AED (in million)			
Guarantees	40,882	3,040	-	43,922
Letters of credit	7,635	211	-	7,846
	48,517	3,251	-	51,768

During the nine month period ended 30 September 2020, off balance sheet amounting to AED 2,779 million were transferred from stage 1 to stage 2 and AED 124 million transferred from stage 2 to stage 1. Total provision against off balance sheet exposures amounted to AED 161 million as at 30 September 2020 (31 December 2019: AED 159 million).

(iii) As at 30 September 2020, other assets and acceptances include financial assets of AED 14,789 million which have been classified under stage 1, AED 767 million has been classified under stage 2 and AED 436 million has been classified under stage 3. Exposure of AED 140 million were transferred from stage 1 to 2 during the nine month period ended 30 September 2020. There were no other transfers between stages during the period ended 30 September 2020. Total provision under other assets amounts to AED 428 million as at 30 September 2020 (31 December 2019: AED 458 million).

(iv) As at 30 September 2020, the Group has recorded ECL of AED 125 million (31 December 2019: AED 109 milion) in respect of deposits and balances due from banks and AED 24 million (31 December 2019: AED 26 million) in respect of other financial assets measured at amortised cost. During the nine month period ended 30 September 2020, deposits and balances due from banks amounting to AED 2,157 million were transferred from stage 1 to stage 2, whereas AED 1 million were transferred from stage 2 to stage 1. There were no other transfers between stages during the period ended 30 September 2020.

4 Risk management (continued)

4.2 Risk management in the current economic scenario

Economic fallout from COVID-19 crisis continues to be significant and rapidly evolving at the present time. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. As at 30 September 2020, the Group has utilized AED 1.6 billion of Zero Coupon Facility ("ZCF") under CBUAE Targeted Economic Support Scheme ("TESS") that was launched in April 2020 as a countermeasure to COVID-19. The ZCF is collateralized by certain financial assets measured at amortised cost and financial assets measured at fair value as disclosed in note 6(f). This facility is due for repayment on/before 31 December 2020.

The Group continues to closely monitor and assess the impact of COVID-19 crisis on credit portfolios and overall levels of credit risk. The Group has increased the frequency of portfolio reviews in order to identify and assess specific credit concerns resulting from the crisis, particularly for clients within aviation, hospitality, travel & tourism, and retail sectors. In addition, the Group has proactively taken steps to manage credit issues arising out of COVID-19 in such a way that is fair to their clients while also serving the Group's interests. Overall, the Group continues to apply sound judgment in understanding and evaluating COVID-19 impact on its clients' cash flows and credit worthiness.

COVID-19 impact on measurement of ECL

The Group has robust governance in place to ensure appropriateness of the IFRS 9 framework and resultant Expected Credit Loss ("ECL") estimates at all times. Specifically, all aspects of the IFRS 9 framework are overseen by an executive IFRS 9 Forum ("the forum"). The forum is chaired by the Group Chief Risk Officer with participation from Chief Financial Officer, Chief Credit Officer and heads of business divisions as members. The Group, through the forum, reviews the appropriateness of inputs and methodology for IFRS 9 ECL on an ongoing basis.

In recognition of significant economic uncertainty due to the COVID-19 crisis and the associated challenge with applying IFRS 9 principles and requirements under these circumstances, CBUAE, Dubai Financial Services Authority ("DFSA") and the Financial Services Regulatory Authority (the "FSRA") jointly issued a guidance note to Banks and Finance companies ("Joint Guidance") in UAE on 15 April 2020 relating to estimation of IFRS 9 ECL provisions in context of the COVID-19 crisis. The Group has taken into consideration provisions of the Joint Guidance in all areas of the IFRS 9 framework and in estimating ECL for Q3.

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in macroeconomic environment, risk profile as well as any actual and expected increase in credit risk. This assessment includes detailed review of potential impacts of COVID-19 on economic forecasts, industry sectors as well as individual clients.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

The outcome of the review is as follows:

(i) Classification of the clients benefitting from payment deferrals into two groups; (a) Group 1: clients those are temporarily and mildly impacted; and (b) Group 2: clients that are significantly impacted and potential stage migrations, if any:

(ii) Revision to IFRS 9 model inputs pertaining to macroeconomic forecasts; and

(iii) Incorporation of Judgmental Overlays (“JO”) within total ECL to reflect the heightened credit risk within its credit portfolio.

Grouping of clients has been carried out based on the assessment of Significant Increase in Credit Risk (“SICR”) for clients benefiting from payment deferrals. The Group has applied knowledge of its clients and judgement in assessing SICR and whether the impact of COVID-19 is temporary or longer term. Specifically, clients that are expected to face liquidity constraints without substantial changes in their creditworthiness have been classified in Group 1. For these clients, the Group holds the view that, despite being subject to payment deferrals, there is insufficient deterioration in credit quality to trigger a stage migration. On the other hand, clients that are expected to face substantial changes in their creditworthiness beyond liquidity issues have been classified as Group 2. Ultimately grouping of borrowers assists in determining whether a stage migration is warranted. As at 30 September 2020, the proportion of clients benefitting from deferrals along with their exposures and ECL is as follows:

		Group 1		Group 2	
Sector	Total gross carrying amount	Gross carrying amount	ECL	Gross carrying amount	ECL
		AED (in million)			
Manufacturing	9,574	239	2	38	-
Construction	9,797	1,204	4	86	10
Trade	14,121	3,071	116	52	9
Transport and communication	3,602	407	12	4	-
Services	9,639	2,575	12	85	7
Financial institutions	2,316	85	-	-	-
Personal*	9,420	1,817	33	514	46
Residential mortgage*	6,706	1,205	-	1,355	8
Government and related enterprises	13,986	140	-	-	-
	79,161	10,743	179	2,134	80

*The above category of "Personal" and "Residential Mortgage" mainly comprises of Retail portfolio of the Bank.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

The Bank has deferred payments for customers in line with the economic relief programmes announced in the countries, where the Bank operates. Due to the payment deferrals, the contractual cashflows from these credit exposures (gross carrying amount of AED 8.2 billion) have been modified and in accordance with IFRS 9 requirements the Group has recognized a modification loss of AED 159 million, which is included as part of the ECL disclosed in note 4.1.

Reasonableness of ECL estimates under COVID-19 crisis

The Group performs historical analysis to determine key economic variables that impact credit risk across different portfolios. Macroeconomic forecasts for these economic variables are used to estimate risk parameters (PD and LGD) on a forward-looking basis for all borrowers and instruments that are in scope of IFRS 9 ECL framework. In accordance with IFRS 9 requirements, the Group estimates these risk parameters under optimistic, base and pessimistic scenarios with representative weights used to measure ECL. In accordance with provisions of the Joint Guidance, the Group has estimated Q3 ECL under updated macroeconomic forecasts[1] that incorporate the impact of COVID-19 and normalized scenario probability[2] across base, optimistic and pessimistic scenarios. Accordingly, the increase in probability for the pessimistic scenario utilized in Q2 reporting has been discontinued.

Reintroducing macroeconomic forecast into the IFRS 9 models in a normalized scenario probability resulted in an increase in ECL of approximately AED 273 million relative to Q2 2020 which has been offset by reduction of AED 300 million in ECL resulting from revert to normalized scenario probability. However, from a sensitivity analysis point of view, if the pessimistic scenario was changed by +10% / -10%, ECL would change by +/- AED 127 million.

The Group continues to maintain a JO of AED 200 million to reflect potential increase in credit risk attributed to specific high risk customers. The Group has reviewed early warning signals and ongoing credit performance for high risk customers in arriving at the JO. As a part of this process, the Group has individually looked at the population of wholesale and retail clients that are likely to face financial difficulties. As an outcome of this assessment, the Group has arrived at an additional impairment estimation of AED 200 million. The JO is inherently subject to high levels of estimation therefore the Group continues to regularly review and reassess the level of JO as new information becomes available.

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[1] The Bank utilizes ‘UAE Total Debt/GDP’, ‘UAE Broad Money’, ‘UAE Budget expenditure as a % of GDP’, ‘Oil Price’, ‘World Industrial Production Growth’ and ‘World GDP growth’ as leading macroeconomic variables, amongst others, within the Bank’s IFRS 9 Model. Values for these have changed by +109%, +4%, +5.9%, -27%, -17.5% and -67.8% respectively under the adverse scenario for year 1 relative to previous projections.

[2] Normalized scenario probability is based on 60% Base, 20% Optimistic and 20% Pessimistic scenario probability. Q2 utilized 80% pessimistic and 20% base scenario probability.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

Reasonableness of ECL estimates under COVID-19 crisis (continued)

As at 30 September 2020, the overlays by categories are as follows:

	Gross carrying amount	Total overlay
	AED (in million)	
Loans and advances (including Islamic financing and investment products measured at amortised cost)	**79,161**	**161**
Due from banks	**28,993**	**-**
Other financial assets measured at amortised cost	**10,763**	**39**
Off-balance sheet items	**50,512**	**-**
	169,429	**200**

Liquidity management

Global stress in the markets brought on by the COVID-19 crisis continues to be felt by the UAE banks. The gradual recovery in the oil prices along with renewed access to the international capital markets by GCC sovereigns and financial institutions however, have eased some of the concerns regarding GCC Governments' finances and banking sector's liquidity. In this environment, Mashreqbank has taken measures to manage its liquidity carefully. The Bank's ALCO has been meeting regularly with primary focus on monitoring cash flows and forecasts, across all jurisdictions in which the Bank operates. The Bank has strengthened its liquidity buffer significantly through raising deposits.

The CBUAE has adopted a proactive approach in order to ensure flow of credit to the economy, especially to sectors severely impacted by the COVID-19 crisis. The CBUAE announced a comprehensive Targeted Economic Support Scheme ("TESS") effective from 15 March 2020, allowing UAE Banks to access zero cost funding and pass on the benefit to their clients through Principal and Interest deferrals. CBUAE also reduced Reserve Requirement against CASA balances, providing an immediate boost to UAE Banks' liquidity.

In order to allow Banks to deploy the liquidity thus released, the liquidity ratios' (LCR and ELAR) minimum threshold was reduced by 30%. The combination of above measures by the CBUAE along with prudent liquidity management by the Bank, has helped to ensure that the Bank is able to meet its clients' banking services requirements effectively and without disruption.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

Cybersecurity

The Bank maintains a strong security protocols with enhanced cyber monitoring for external cyber threats. Further, the Bank has also ensured that its network security including Domain Name System (“DNS”) are resilient to withstand Distributed Denial of Service (“DDOS”) and other cyber-attacks.

COVID-19 impact on insurance subsidiary of the Group

The Bank’s insurance subsidiary ("subsidiary") has enabled remote connectivity for 95% of its employees as part of its business continuity management initiative to ensure that there is no interruption to client servicing and operations. This has resulted in the subsidiary delivering service level commitments to its customers across multiple lines of business.

The subsidiary has mainly noticed an increase in Business Interruption (BI) and Health Care claims due to COVID-19. The subsidiary is monitoring the loss experience and appropriately enhancing its technical reserves as at 30 September 2020. The impact on life insurance is minimal at this point.

Since 2019, the subsidiary has developed a robust risk appetite framework and capital thresholds based on the pandemic risk and other risks stress scenarios. Having considered the impact of COVID-19, the subsidiary reassessed its control environment around fraud and information security to ensure adequate controls are in place and conducts more regular reviews on its reinsurers in relation to the counterparty credit ratings, financial metrics, credit outlook and changes to their structures, if any.

Also, the subsidiary has updated its reinsurer security list in order to address the impacts of COVID-19. The current security list has more than 92% of “A” rated reinsurance securities.

In parallel, the subsidiary continues to have a robust collection and credit control process. Further enhancement and development to strengthen the processes and credit controls have resulted in an efficient receivable management and reduced the credit cycle. Hence, despite the uncertain economic conditions, the subsidiary continued to have a robust collection throughout the period. Also, the measures taken above have contributed to minimize the impact on the impairment provision recognized during the period. However, the subsidiary continuously monitors the impact on receivables using a robust ECL model to calculate the allowance for impairment.

Similarly, the subsidiary’s investment portfolio measured at amortised cost has been assessed using a robust ECL model with updated inputs as of the reporting date and based on the results, the subsidiary had taken adequate provisions for impairment losses. These are not material as at 30 September 2020. The subsidiary also assessed the unquoted equity portfolio against latest available inputs, as well as performed market research specific to the underlying investee companies. Investment properties’ valuation is performed on an annual basis by internationally qualified valuation firms who apply RICS Valuation Global Standards in compliance with the UAE Financial Regulations for Insurance Companies.

4 Risk management (continued)

4.2 Risk management in the current economic scenario (continued)

COVID-19 impact on insurance subsidiary of the Group (continued)

In addition, management performs market research on properties throughout the year to assess any significant market developments. The subsidiary believes the fair values reported for both unquoted investments and investment properties reflect the current market conditions and it shall also carry out an independent external valuation at year end.

The liquidity position of the subsidiary remains strong. Furthermore, the subsidiary has carried out stress testing to assess the resilience of their solvency compliance, which also remains strong after considering the impact of the shocks. As the situation continues to develop, the subsidiary will continue to monitor the situation closely.

4.3 Compliance risk

Contingent liabilities

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 have reviewed the Bank's submission and discussions are ongoing with the US regulators.

It is therefore premature at this time to determine the quantum of the penalty, if any, that may be levied by the US regulators. Refer note 20 for disclosure of contingent liabilities.

5 Critical accounting judgements and key sources of estimation of uncertainty

The preparation of condensed consolidated interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this condensed consolidated interim financial information, the significant judgments made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2019, except for the estimates described below.

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

5.1 Business model assessment

Classification and measurement of financial assets depends on the results of the SPPI and the business model test. The Group determines the business model to reflect how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance measured, the risks that affect the performance of the assets and how these are managed. The Group monitors financial assets measured at amortised cost that are derecognised prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business for which the asset was held.

Monitoring is part of the Group's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

5.2 Measurement of the expected credit loss allowance

In the preparation of the condensed consolidated interim financial information management has made certain additional assumptions in the measurement of Expected Credit Loss (ECL). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL are further detailed in note 4.

6 Other financial assets

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

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit or loss (FVTPL)		
Debt securities	**745,586**	876,295
Equities	**9,471**	15,235
Mutual and other funds	**595,053**	599,310
	1,350,110	1,490,840
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	**4,868,428**	2,466,253
Equities	**460,265**	565,073
	5,328,693	3,031,326
Total other financial assets measured at fair value (A)	**6,678,803**	4,522,166
(iii) Other financial assets measured at amortised cost		
Debt securities	**10,762,863**	10,901,518
Less: Allowance for impairment	**(24,241)**	(26,365)
Total other financial assets measured at amortised cost (B)	**10,738,622**	10,875,153
Total other financial assets [(A)+(B)]	**17,417,425**	15,397,319

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

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balances within the U.A.E.	**4,156,433**	3,167,938
Balances outside the U.A.E.	**13,285,233**	12,255,746
	17,441,666	15,423,684
Less: Allowance for impairment	**(24,241)**	(26,365)
	17,417,425	15,397,319

6 Other financial assets (continued)

(c) During the period from 1 January 2020 to 30 September 2020, dividends received from financial assets measured at FVTOCI amounting to AED 23 million (period ended 30 September 2019: AED 23 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.

(d) Other financial assets measured at FVTPL include AED 197 million (31 December 2019: AED 202 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 the fair value of these funds is based on the quoted market price.

(e) At 30 September 2020, certain financial assets measured at amortised cost, financial assets measured at fair value included debt securities with an aggregate carrying value of AED 1,254 million (fair value of AED 1,266 million) [31 December 2019: carrying value of AED 1,093 million (fair value of AED 1,119 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 906 million (31 December 2019: AED 1,089 million).

(f) At 30 September 2020, certain financial assets measured at amortised cost and financial assets measured at fair value included debt securities with an aggregate carrying value of AED 1,155 million (marginal value of AED 1,000 million) [31 December 2019: carrying value of nil (marginal value of nil)] which were collateralised as at that date against repurchase agreements with Central Bank of UAE ("Repo") of AED 1,150 million (31 December 2019: nil).

(g) During the period, the Group has reviewed its portfolio and sold certain other financial assets measured at amortised cost, resulting in a gain of AED 59 million on the sale.

7 Loans and advances measured at amortised cost

(a) The analysis of the Group's loans and advances measured at amortised cost is as follows:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Loans	**53,978,929**	57,183,573
Overdrafts	**6,936,851**	5,825,415
Credit cards	**1,762,946**	1,887,551
Others	**889,596**	658,109
	63,568,322	65,554,648
Less: Allowance for impairment	**(4,517,305)**	(3,844,371)
	59,051,017	61,710,277

7 Loans and advances measured at amortised cost (continued)

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

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Manufacturing	**8,690,517**	9,558,830
Construction	**6,335,422**	7,005,045
Trade	**12,167,770**	12,427,310
Transport and communication	**3,164,041**	3,265,643
Services	**6,272,625**	6,525,024
Financial institutions	**1,240,274**	950,620
Personal	**7,655,711**	8,176,471
Residential mortgage	**5,565,132**	5,505,912
Government and related enterprises	**12,476,830**	12,139,793
	63,568,322	65,554,648
Less: Allowance for impairment	**(4,517,305)**	(3,844,371)
	59,051,017	61,710,277

(c) The analysis of allowance for impairment on loans and advances measured at amortised cost by industry sector is as follows:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Manufacturing	**308,649**	286,249
Construction	**471,751**	362,027
Trade	**556,334**	223,310
Transport and communication	**102,138**	78,539
Services	**326,962**	336,175
Financial institutions	**228,561**	95,750
Personal	**1,282,993**	1,094,070
Residential mortgage	**94,827**	107,730
Government and related enterprises	**1,145,090**	1,260,521
	4,517,305	3,844,371

7 Loans and advances measured at amortised cost (continued)

(d) The movements in the allowance for impairment and suspended interest on loans and advances measured at amortised cost are as follows:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balance at the beginning of the period / year	**3,844,371**	3,480,583
Impairment allowance for the period / year	**1,315,470**	830,925
Interest in suspense	**213,107**	147,990
Exchange rate and other adjustments	**6,717**	31,244
Written off during the period / year	**(862,360)**	(646,371)
Balance at the end of the period / year	**4,517,305**	3,844,371

(e) The allowance for impairment includes a specific provision of AED 2,316 million for stage 3 loans of the Group as at 30 September 2020 (31 December 2019: AED 1,910 million).

(f) At 30 September 2020, certain loans and advances measured at amortised cost with an aggregate carrying value of AED 2,357 million (fair value of AED 1,949 million) [31 December 2019: carrying value of AED Nil (fair value of AED Nil)] were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 956 million (31 December 2019: AED nil).

8 Islamic financing and investment products measured at amortised cost

(a) The analysis of the Group's Islamic financing and investment products measured at amortised cost is as follows:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Financing		
Murabaha	**9,018,358**	8,798,444
Ijara	**6,146,743**	5,824,623
	15,165,101	14,623,067
Investment		
Wakala	**427,365**	271,835
	427,365	271,835
Total	**15,592,466**	14,894,902
Less: Unearned income	**(540,051)**	(309,555)
Allowance for impairment	**(161,430)**	(128,590)
	14,890,985	14,456,757

8 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:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Manufacturing	**883,856**	634,654
Construction	**3,462,052**	4,003,630
Trade	**1,953,268**	1,832,296
Transport and communication	**437,897**	312,759
Services	**3,366,255**	3,230,516
Financial institutions	**1,076,154**	1,079,112
Personal	**1,764,098**	1,231,533
Residential mortgage	**1,140,680**	1,158,522
Government and related enterprises	**1,508,206**	1,411,880
Total	**15,592,466**	14,894,902
Less: Unearned income	**(540,051)**	(309,555)
Allowance for impairment	**(161,430)**	(128,590)
	14,890,985	14,456,757

(c) The analysis of allowance for impairment on Islamic financing and investment products measured at amortised cost by industry sector is as follows:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Manufacturing	**6,191**	43,756
Construction	**32,253**	15,285
Trade	**43,375**	10,594
Transport and communication	**12,404**	1,299
Services	**12,976**	9,109
Financial institutions	**4,976**	3,716
Personal	**7,627**	9,533
Residential mortgage	**40,392**	34,667
Government and related enterprises	**1,236**	631
	161,430	128,590

8 Islamic financing and investment products measured at amortised cost (continued)

(d) The movement in the allowance for impairment of Islamic financing and investment products measured at amortised cost are as follows:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balance at the beginning of the period / year	**128,590**	139,056
Impairment allowance for the period / year	**79,649**	47,611
Profit in suspense	**9,865**	2,716
Exchange rate and other adjustments	**-**	(10,000)
Written off during the period / year	**(56,674)**	(50,793)
Balance at the end of the period / year	**161,430**	128,590

(e) The allowance for impairment includes a specific provision of AED 86 million for stage 3 Islamic financing and investment exposure of the Group as at 30 September 2020 (31 December 2019: AED 83 million).

9 Investment properties

	30 September 2020 (un-audited) AED '000	31 December 2019 (audited) AED '000
At fair value		
Balance at beginning of the period / year	**473,591**	489,885
Change in fair value during the period	**-**	(13,844)
Disposal during the period / year	**-**	(2,450)
Balance at the end of the period / year	**473,591**	473,591

All of the Group's investment properties are freehold properties and located in the U.A.E.

The fair value of investment properties as at 31 December 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. The fair value of the Group's investment properties is based on observable market inputs, i.e. Level 2. Management has assessed the fair value of investment properties and the carrying value approximates the fair value as at 30 September 2020.

10 Property and equipment

During the period, the Group purchased AED 283 million (period ended 30 September 2019: AED 254 million) of various types of property and equipment and disposed of property and equipment with a net book value of AED 10 million (period ended 30 September 2019: AED 6 million).

11 Deposits and balances due to banks

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

	30 September 2020 (un-audited) AED '000	31 December 2019 (audited) AED '000
Time	**9,632,006**	6,802,998
Demand	**2,846,406**	1,987,182
Overnight	**2,183,625**	2,394,316
	14,662,037	11,184,496

12 Customers' deposits

The analysis of customers' deposits is as follows:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Current and other accounts	**38,759,238**	32,488,830
Saving accounts	**3,875,269**	2,885,960
Time deposits	**39,352,524**	41,064,782
	81,987,031	76,439,572

13 Islamic customers' deposits

The analysis of Islamic customers' deposits is as follows:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Current and other accounts	**2,595,111**	2,554,782
Saving accounts	**153,362**	123,388
Time deposits	**9,980,077**	11,851,091
	12,728,550	14,529,261

14 Medium-term notes

	30 September 2020 (un-audited) AED '000	31 December 2019 (audited) AED '000
Medium term notes	**10,168,123**	11,838,757

The maturities of the medium-term notes (MTNs) issued under the programme are as follows:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Year		
2020	**375,105**	4,370,545
2021	**2,230,876**	1,624,111
2022	**2,369,197**	1,780,371
2023	**396,167**	250,557
2024	**3,963,313**	3,775,725
2025	**795,125**	-
2029	**38,340**	37,448
	10,168,123	11,838,757

The Group established a Euro Medium Term Note (EMTN) programme for USD 5 billion (AED 18.37 billion) under an agreement dated 15 March 2010.

During the nine month period ended 30 September 2020, new medium-term notes of AED 2.3 billion were issued and AED 4 billion of medium-term notes were redeemed.

15 Issued and paid up capital

As at 30 September 2020, 177,530,823 ordinary shares of AED 10 each (31 December 2019: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

At the Annual General Meeting of the shareholders held on 9 March 2020, the shareholders approved a cash dividend of 40% for the year ended 31 December 2019 (31 December 2018: cash dividend of 40%) of the issued and paid up capital amounting to AED 710 million (31 December 2018: AED 710 million).

16 Non-controlling interests

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balance at the beginning of the period / year	**710,348**	621,585
Initial application of IFRS 16	**-**	(49)
Profit for the period / year	**59,399**	70,948
Other comprehensive (loss)/income for the period / year	**(24,747)**	17,864
Payment to NCI	**(21,005)**	-
Balance at the end of the period / year	**723,995**	710,348

17 General and administrative expenses

General and administrative expenses include senior management remuneration and director fees of AED 28 million for the nine month period ended 30 September 2020 (nine month period ended 30 September 2019 : AED 110 million).

18 Earnings per share

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

	For the nine month period ended	
	30 September 2020 (un-audited)	30 September 2019 (un-audited)
Profit for the period (AED'000) (Attributed to owners of the Parent)	**352,024**	1,757,389
Weighted average number of shares in issue	**177,530,823**	177,530,823
Basic earnings per share (AED)	**1.98**	9.90

There were no potentially dilutive shares as of 30 September 2020 and 30 September 2019.

19 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central banks, certificates of deposits, balances with banks and money market placements which are maturing within three months from the date of the deposit or placement, as below. Due to banks and repurchase agreements maturing within 3 months for the comparative balance for cash and cash equivalents have been excluded and shown as part of operating activities in the cash flow statement.

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000	30 September 2019 (un-audited) AED'000
Cash on hand	**946,549**	908,016	762,074
Current accounts and other balances with central banks	**14,088,696**	10,508,330	5,385,740
Certificates of deposit maturing within 3 months	**-**	1,050,000	1,700,000
Deposits and balances due from banks maturing within 3 months	**9,366,935**	10,300,461	21,101,954
	24,402,180	22,766,807	28,949,768

20 Contingent liabilities

The analysis of the Group's contingent liabilities is as follows:

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Guarantees	**42,196,878**	43,922,209
Letters of credit	**8,314,627**	7,845,546
	50,511,505	51,767,755

21 Derivative financial instruments

30 September 2020 (un-audited)

	Positive fair value AED'000	**Negative fair value** AED'000	**Notional Amount** AED'000
Held for trading:			
Forward foreign exchange contracts	**311,453**	**269,124**	**68,598,469**
Foreign exchange options (bought)	**-**	**2,721**	**512,785**
Foreign exchange options (sold)	**2,724**	**-**	**466,372**
Interest rate swaps	**884,577**	**883,406**	**29,156,560**
Futures contracts purchased (Customer)	**-**	**3,790**	**125,701**
Futures contracts sold (Customer)	**3,953**	**-**	**308,537**
Futures contracts sold (Bank)	**3,790**	**35**	**188,389**
Futures contracts purchased (Bank)	**142**	**3,953**	**399,466**
	1,206,639	**1,163,029**	**99,756,279**
Held as fair value and cash flow hedges:			
Cross currency swaps	**40,877**	**52,011**	**2,287,978**
	1,247,516	**1,215,040**	**102,044,257**

30 September 2020 (un-audited)

	Level 1 AED'000	**Level 2** AED'000	**Level 3** AED'000	**Total** AED'000
Other assets				
Positive fair value of derivatives	**-**	**1,247,516**	**-**	**1,247,516**
Other liabilities				
Negative fair value of derivatives	**-**	**1,215,040**	**-**	**1,215,040**

21 Derivative financial instruments (continued)

31 December 2019 (audited)

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000
Held for trading:			
Forward foreign exchange contract	182,794	137,240	61,442,635
Foreign exchange options (bought)	-	6,311	3,879,499
Foreign exchange options (sold)	12,350	-	3,829,830
Interest rate swaps	440,909	438,099	20,342,094
Credit default swaps	148	-	11,723
Futures contracts purchased (Customer)	703	-	38,731
Futures contracts sold (Customer)	-	1,277	70,805
Futures contracts sold (Bank)	1,277	-	70,805
Futures contracts purchased (Bank)	-	703	38,731
	638,181	583,630	89,724,853
Held as fair value and cash flow hedges:			
Cross currency swaps	29,200	23,384	1,605,773
	667,381	607,014	91,330,626

31 December 2019 (audited)

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000	Total AED'000
Other assets				
Positive fair value of derivatives	-	667,381	-	667,381
Other liabilities				
Negative fair value of derivatives	-	607,014	-	607,014

Derivatives with positive fair value and negative fair value are included in other assets balance and other liabilities balance respectively.

There were no transfers between Level 1 and 2 during the period.

22 Seasonality of results

No income of a seasonal nature was recorded in the condensed consolidated interim financial information for the nine month period ended 30 September 2020 and 2019 respectively.

23 Related party transactions

(a) Certain related parties (such as, directors, key management personnel and major shareholders of the Group and companies of which they are principal owners) are customers of the Group in the ordinary course of business. Transactions with such related parties are made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with external customers and parties. Such related party transactions are disclosed below.

(b) Related party balances included in the condensed consolidated statement of financial position are as follows:

	30 September 2020 AED'000 (un-audited)	31 December 2019 AED'000 (audited)
Balances with major shareholders		
Loans and advances	**3,758,811**	4,001,254
Deposits/ financial instruments under lien	**771,520**	801,542
Letter of credit and guarantees	**1,408,486**	1,568,804
Balances with directors and key management personnel		
Loans and advances	**67,620**	83,227
Deposits/ financial instruments under lien	**172,796**	189,052
Letter of credit and guarantees	**82,816**	106,747

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

	30 September 2020 AED'000 (un-audited)	30 September 2019 AED'000 (un-audited)
Transactions with major shareholders		
Interest income	**109,711**	141,450
Interest expense	**1,418**	1,091
Other income	**42,817**	41,246
Transactions with directors and key management personnel		
Interest income	**2,513**	3,062
Interest expense	**463**	662
Other income	**456**	822

(d) The Group is controlled by Al Ghurair Family members who own 88.07% (31 December 2019: 88.07%) of the issued and paid up capital of the bank.

24 Segmental information

IFRS 8 – *Operating Segments* – requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

Reportable segments

Operating segments are identified on the basis of internal reports about the components of the Group that are regularly reviewed by the Group's CEO (the Group's chief operating decision maker) in order to allocate resources to the segment and to assess its performance. Information reported to the Group's CEO for the purpose of resource allocation and assessment of performance is based on following strategic business units offering products and services to different markets.

The Group's reportable segments under IFRS 8 are therefore as follows:

1. Corporate and Investment Banking segment comprises of domestic corporate and commercial banking. It also includes global Financial Institution business. It offers complete suite of corporate banking products such as Trade finance, contracting finance, project finance, investment banking, cash management, correspondent banking, etc.

2. The Retail segment includes products and services offered to individuals or small businesses within U.A.E, Qatar and Egypt. The product offerings to customers include, current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, private banking, wealth management services and Islamic financing.

3. The Treasury & Capital Markets segment consists of customer flow business and proprietary business and funding centre management. Customer flow business includes transactions for foreign exchange, derivatives, margin FX, futures, hedging, investment products, domestic equities (brokerage) and asset management undertaken on behalf of customers. The proprietary business includes trading and investing activity undertaken on behalf of the Group.

4. The International Banking segment consists of Corporate business for the Group's overseas banking branches. Product range covers complete suite similar to domestic corporate.

24 Segmental information (continued)

Reportable segments (continued)

5. 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.

6. Other consists of Head office and certain investments and assets held centrally due to their strategic significance to the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and tax expenses.

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2020 to 30 September 2020 (un-audited)						
	Corporate & Investment banking	**Retail**	**Treasury & capital markets**	**International banking**	**Insurance**	**Other**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Net interest income and earnings from Islamic products	**766,385**	**766,418**	**16,326**	**215,353**	**60,950**	**234,415**	**2,059,847**
Other income, net	**468,930**	**400,565**	**555,664**	**142,053**	**342,814**	**1,235**	**1,911,261**
Operating income	**1,235,315**	**1,166,983**	**571,990**	**357,406**	**403,764**	**235,650**	**3,971,108**
General and administrative expenses							**(1,883,858)**
Operating profit before impairment							**2,087,250**
Allowances for impairment, net							**(1,642,851)**
Profit before taxes							**444,399**
Tax expense							**(32,976)**
Profit for the period							**411,423**
Attributed to:							
Owners of the Parent							**352,024**
Non-controlling interests							**59,399**
							411,423
	30 September 2020 (un-audited)						
Segment Assets	**61,736,762**	**16,924,013**	**46,139,589**	**16,396,518**	**7,479,148**	**21,048,291**	**169,724,321**
Segment Liabilities	**58,470,749**	**31,459,909**	**23,157,705**	**11,952,045**	**5,576,330**	**17,381,049**	**147,997,787**

24 Segmental information (continued)

Reportable segments (continued)

	Period from 1 January 2019 to 30 September 2019 (un-audited)						
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	1,017,922	914,284	226,824	201,859	59,590	327,086	2,747,565
Other income, net	562,259	455,257	340,271	150,493	316,869	(46,391)	1,778,758
Operating income	1,580,181	1,369,541	567,095	352,352	376,459	280,695	4,526,323
General and administrative expenses							(1,993,671)
Operating profit before impairment							2,532,652
Allowances for impairment, net							(704,771)
Profit before taxes							1,827,881
Tax expense							(15,787)
Profit for the period							1,812,094
Attributed to:							
Owners of the Parent							1,757,389
Non-controlling interests							54,705
							1,812,094
	31 December 2019 (audited)						
Segment Assets	63,866,899	17,065,798	38,357,176	12,384,411	7,039,901	20,716,798	159,430,983
Segment Liabilities	56,767,407	27,176,632	23,366,356	10,312,515	5,170,031	14,395,112	137,188,053

25 Fair value of financial instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Valuation techniques and assumptions applied for the purposes of measuring fair value.

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2019.

Fair value of the Group’s financial assets that are measured at fair value on recurring basis.

Some of the Group’s financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined:

25 Fair value of financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Other financial assets	**Fair value as at**					
	30 September 2020	31 December 2019	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	(un-audited)	(audited)				
	AED'000	AED'000				
Other financial assets measured at FVTPL						
Quoted debt investments	**110,255**	196,516	Level 1	Quoted bid prices in an active market	None	Not applicable
Quoted equity investments	**9,221**	14,990	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted debt investments	**635,331**	679,779	Level 2	Based on the recent similar transaction in market	None	Not applicable
Mutual and other funds	**595,053**	599,310	Level 2	Quoted prices in secondary market.	None	Not applicable
Unquoted equity investments	**250**	245	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	1,350,110	1,490,840				

25 Fair value of financial instruments (continued)

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Other financial assets	**Fair value as at**					
	30 September 2020	31 December 2019				
	(un-audited)	(audited)				
	AED'000	AED'000	**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
Other financial assets measured at FVTOCI						
Quoted equity investments	**404,776**	501,480	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted debt investments	**562,026**	561,693	Level 3	Based on the recent similar transaction in market.	None	Not applicable
Quoted debt investments	**4,306,402**	1,904,560	Level 1	Quoted bid prices in an active market	None	Not applicable
Unquoted equity investments	**55,489**	63,593	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
	5,328,693	3,031,326				
	6,678,803	4,522,166				

There were no transfers between Level 1 and 2 during the period.

25 Fair value of financial instruments (continued)

Reconciliation of Level 3 fair value measurement of other financial assets measured at FVTPL

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balance at the beginning of the period / year	**245**	55,315
Change in fair value	**5**	(55,070)
Balance at the end of the period / year	**250**	245

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

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Balance at the beginning of the period / year	**625,286**	192,869
Purchases	**-**	563,842
Disposals	**(5,039)**	(153,087)
Change in fair value	**(2,732)**	21,662
Balance at the end of the period / year	**617,515**	625,286

All gains and losses included in condensed 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 'investment revaluation reserve'.

26 Capital adequacy ratio

As per the Central bank regulation for Basel III, the capital requirement as at 30 September 2020 is 13% inclusive of capital conservation buffer of 2.5%. However, as per the standards for issued by CBUAE for TESS program due to the COVID-19 crisis, banks are allowed to tap into the capital conservation buffer up to a maximum of 60% without supervisory consequences, effective from 15 March 2020 until 31 December 2021.

The Bank is required to comply with the following minimum requirement:

(i) CET1 must be at least 7% of risk weighted assets (RWA);
(ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and
(iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).

The capital adequacy ratio is computed based on circulars issued by the U.A.E. Central Bank as per Basel III.

	30 September 2020 (un-audited) AED'000	31 December 2019 (audited) AED'000
Capital base		
Tier 1 capital	**21,255,247**	20,774,283
Tier 2 capital	**1,478,170**	1,549,604
Total capital base (A)	**22,733,417**	22,323,887
Risk-weighted assets		
Credit risk	**118,253,565**	123,968,330
Market risk	**1,824,605**	2,770,836
Operational risk	**10,424,335**	10,424,335
Total risk-weighted assets (B)	**130,502,505**	137,163,501
Capital adequacy ratio (%) [(A)/(B) x 100]	**17.42%**	16.28%

27 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the condensed consolidated interim financial information as at and for the nine-month period ended 30 September 2020.

28 Approval of condensed consolidated interim financial information

The condensed consolidated interim financial information on pages 2 to 58 were approved by the Board of Directors on 9 November 2020.