Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2020

These audited consolidated financial statements are subject to approval of the Central Bank of U.A.E and adoption by shareholders at the annual general meeting.

Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2020

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Board of Directors' report

The Board of Directors has pleasure in submitting their report and the audited consolidated financial statements for the year ended 31 December 2020.

Incorporation and registered offices

Mashreqbank PSC was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The address of the registered office is P.O. Box 1250, Dubai, United Arab Emirates.

Principal activities

The principal activities of the Bank are retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management. These activities are carried out through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

Financial position and results

The financial position and results of the Group for the year ended 31 December 2020 are set out in the accompanying consolidated financial statements.

Dividend

The Board of Directors do not propose any cash dividend for the year ended 31 December 2020.

Directors

The following are the Directors of the Bank as at 31 December 2020

Chairman:	H.E. Abdul Aziz Abdulla Al Ghurair
Vice Chairman:	Ali Rashed Ahmad Lootah
Directors:	Abdulla Bin Ahmad Al Ghurair
	Rashed Saif Saeed Al Jarwan Al Shamsi
	Mohammed Saif Ahmed Al Ghurair
	Rashed Saif Ahmed Al Ghurair
	Sultan Abdulla Ahmed Al Ghurair

Auditors

The consolidated financial statements for the year ended 31 December 2020 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors

H.E. Abdul Aziz Abdulla Al Ghurair
Chairman
10 February 2021

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mashreqbank PSC (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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

Our audit approach

Key Audit Matters	• Measurement of Expected Credit Losses

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

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

Key audit matters

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

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

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
Measurement of Expected Credit Losses The Group applies Expected Credit Losses (ECL) on all its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.	We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2020: ➢ We tested the completeness and accuracy of the data used in the calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria. ➢ We involved our internal experts to assess the following areas: • Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. • ECL modelling methodology and calculations used to compute the Probability of Default (PD), Loss Given Default (LGD), and exposure at default (EAD) for the Group's classes of financial assets. The appropriateness of the model methodology was assessed, giving specific consideration to COVID-19 and the judgement overlay. • Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.

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

Our audit approach (continued)

Key audit matters (continued)

Key audit matter	How our audit addressed the key audit matter
For defaulted exposures, the Group exercises judgements to estimate the expected future cash flows related to individual exposures, including the value of collateral. The Group's impairment policy under IFRS 9 is presented in Note 3.14 to the consolidated financial statements. Measurement of ECL is considered as a key audit matter as the Group applies significant judgments and makes a number of assumptions which have significantly increased as a result of Covid-19, affecting the staging criteria applied to the financial assets as well as in developing ECL models and assumptions for calculating its impairment provisions.	• For a sample of exposures, we checked the appropriateness of determining EAD, including the consideration of repayments and collateral. ➢ In addition, for the Stage 3 corporate portfolio, the appropriateness of provisioning assumptions were independently assessed for a sample of exposures selected on the basis of risk and the significance of individual exposures. An independent view was formed on the levels of provisions recognised, based on the detailed loan and counterparty information available in the credit file. For the Stage 3 retail portfolio, assumptions were independently assessed for each product category and an independent view was formed on the levels of provisions recognised. ➢ We assessed the consolidated financial statement disclosures to ensure compliance with IFRS 7 and IFRS 9 and the disclosures made relating to the impact of COVID-19 on ECL.

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

Other information

The directors are responsible for the other information. The other information comprises the Board of Directors' report (but does not include the consolidated financial statements and our auditor's report thereon) which we obtained prior to the date of this auditor's report, and the Chairman's Report, Corporate Governance Report and Financial Highlights, which are expected to be made available to us after that date.

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

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

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

When we read the Chairman's Report, Corporate Governance Report and Financial Highlights, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

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

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

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

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

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

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

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

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

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

Auditor's responsibilities for the audit of the consolidated financial statements (continued)

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

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

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

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, we report that for the year ended 31 December 2020:

- we have obtained all the information we considered necessary for the purposes of our audit;
- the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015;
- the Group has maintained proper books of account;
- the financial information included in the Directors' report is consistent with the books of account of the Group;
- note 7 to the consolidated financial statements discloses the shares purchased by the Group during the financial year ended 31 December 2020;
- note 37 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

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

Report on other legal and regulatory requirements (continued)

- Note 32 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2020; and

- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015, or in respect of the Bank, it's Articles of Association, which would materially affect its activities or its financial position as at 31 December 2020.

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

PricewaterhouseCoopers
10 February 2021

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

Consolidated statement of financial position

		As at 31 December			
		2020		2019	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	**17,941,941**	**4,884,819**	20,939,700	5,700,980
Deposits and balances due from banks	6	**28,239,030**	**7,688,274**	26,565,848	7,232,738
Other financial assets measured at fair value	7	**8,439,103**	**2,297,605**	4,522,166	1,231,191
Other financial assets measured at amortised cost	7	**11,000,654**	**2,995,005**	10,875,153	2,960,837
Loans and advances measured at amortised cost	8	**57,286,411**	**15,596,627**	61,710,277	16,801,056
Islamic financing and investment products measured at amortised cost	9	**14,246,343**	**3,878,667**	14,456,757	3,935,953
Acceptances		**12,767,461**	**3,476,031**	12,903,083	3,512,955
Other assets	10	**3,478,455**	**947,035**	2,738,265	745,512
Reinsurance contract assets	20	**2,891,920**	**787,345**	2,585,918	704,034
Investment in associate		**20,996**	**5,716**	29,355	7,992
Investment properties	11	**449,715**	**122,438**	473,591	128,938
Property and equipment	12	**1,466,769**	**399,338**	1,367,993	372,446
Intangible assets	13	**294,442**	**80,164**	262,877	71,571
Total assets		**158,523,240**	**43,159,064**	159,430,983	43,406,203
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	14	**14,844,380**	**4,041,487**	11,184,496	3,045,057
Repurchase agreements with banks	15	**2,289,723**	**623,393**	1,088,537	296,362
Customers' deposits	16	**76,375,973**	**20,793,894**	76,439,572	20,811,209
Islamic customers' deposits	17	**11,884,566**	**3,235,656**	14,529,261	3,955,693
Acceptances		**12,767,461**	**3,476,031**	12,903,083	3,512,955
Other liabilities	18	**5,808,908**	**1,581,516**	4,950,558	1,347,824
Medium-term loans	19	**9,616,042**	**2,618,035**	11,838,757	3,223,185
Insurance contract liabilities	20	**4,747,779**	**1,292,616**	4,253,789	1,158,124
Total liabilities		**138,334,832**	**37,662,628**	137,188,053	37,350,409
EQUITY					
Capital and reserves					
Issued and paid up capital	21(a)	**1,775,308**	**483,340**	1,775,308	483,340
Statutory and legal reserves	21(b)	**912,099**	**248,325**	907,714	247,132
General reserve	21(c)	**312,000**	**84,944**	312,000	84,944
Currency translation reserve	21(d)	**(98,332)**	**(26,771)**	(88,720)	(24,155)
Investments revaluation reserve	21(e)	**(358,088)**	**(97,492)**	(273,595)	(74,488)
Cash flow hedge reserve	21(f)	**(437)**	**(119)**	4,292	1,168
Retained earnings		**16,888,178**	**4,597,925**	18,895,583	5,144,455
Equity attributable to owners of the Parent		**19,430,728**	**5,290,152**	21,532,582	5,862,396
Non-controlling interests	22	**757,680**	**206,284**	710,348	193,398
Total equity		**20,188,408**	**5,496,436**	22,242,930	6,055,794
Total liabilities and equity		**158,523,240**	**43,159,064**	159,430,983	43,406,203

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

Abdul Aziz Abdulla Al Ghurair
Chairman

Ahmed Abdelaal
Group Chief Executive Officer

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

Mashreqbank PSC Group

Consolidated statement of profit or loss

		For the year ended 31 December			
		2020		2019	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Interest income	24	**4,514,924**	**1,229,220**	5,881,414	1,601,256
Income from Islamic financing and investment products	25	**543,477**	**147,965**	753,645	205,185
Total interest income and income from Islamic financing and investment products		**5,058,401**	**1,377,185**	6,635,059	1,806,441
Interest expense	26	**(2,110,697)**	**(574,652)**	(2,617,855)	(712,729)
Distribution to depositors – Islamic products	27	**(271,404)**	**(73,892)**	(310,048)	(84,413)
Net interest income and income from Islamic products net of distribution to depositors		**2,676,300**	**728,641**	3,707,156	1,009,299
Fee and commission income	28	**2,642,536**	**719,449**	2,903,706	790,554
Fee and commission expenses	28	**(1,423,024)**	**(387,428)**	(1,538,219)	(418,791)
Net fee and commission income		**1,219,512**	**332,021**	1,365,487	371,763
Net investment income	29	**321,380**	**87,498**	149,778	40,778
Other income, net	30	**931,072**	**253,491**	771,775	210,121
Operating income		**5,148,264**	**1,401,651**	5,994,196	1,631,961
General and administrative expenses	32	**(2,944,856)**	**(801,758)**	(2,623,103)	(714,158)
Operating profit before impairment		**2,203,408**	**599,893**	3,371,093	917,803
Allowances for impairment, net	31	**(3,356,819)**	**(913,918)**	(1,212,187)	(330,026)
(Loss) / profit before tax		**(1,153,411)**	**(314,025)**	2,158,906	587,777
Tax expense		**(51,840)**	**(14,114)**	(22,764)	(6,198)
(Loss) / profit for the year		**(1,205,251)**	**(328,139)**	2,136,142	581,579
Attributable to:					
Owners of the Parent		**(1,277,826)**	**(347,897)**	2,065,194	562,264
Non-controlling interests		**72,575**	**19,758**	70,948	19,315
		(1,205,251)	**(328,139)**	2,136,142	581,579
(Loss) / earnings per share	33	**AED (7.20)**	**USD (1.96)**	AED 11.63	USD 3.17

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

Mashreqbank PSC Group

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2020		2019	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
(Loss) / profit for the year	**(1,205,251)**	**(328,139)**	2,136,142	581,579
Other comprehensive (loss) / income				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments) [Note 7(k)]	**(30,966)**	**(8,431)**	65,529	17,841
Items that may be reclassified subsequently to profit or loss:				
Changes in currency translation reserve	**(13,072)**	**(3,559)**	(5,917)	(1,611)
Changes in fair value of financial assets measured at fair value through other comprehensive income (debt instruments) [Note 7(k)]	**(73,325)**	**(19,963)**	(8,061)	(2,195)
Gain / (loss) on hedging instruments designated as hedges of net investment in foreign operations	**716**	**196**	(2,759)	(751)
Cash flow hedges - fair value (loss) / gain arising during the year [Note 21(f)]	**(4,729)**	**(1,288)**	8,416	2,291
Total other comprehensive (loss) / income for the year	**(121,376)**	**(33,045)**	57,208	15,575
Total comprehensive (loss) / income for the year	**(1,326,627)**	**(361,184)**	2,193,350	597,154
Attributable to:				
Owners of the Parent	**(1,391,731)**	**(378,909)**	2,104,538	572,974
Non-controlling interests	**65,104**	**17,725**	88,812	24,180
	(1,326,627)	**(361,184)**	2,193,350	597,154

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

Mashreqbank PSC Group

Consolidated statement of changes in equity

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cash flow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,481,156	20,144,104	621,585	20,765,689
Changes on initial application of IFRS 16	-	-	-	-	-	-	(5,937)	(5,937)	(49)	(5,986)
Restated balances as at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,475,219	20,138,167	621,536	20,759,703
Profit for the year ended 31 December 2019	-	-	-	-	-	-	2,065,194	2,065,194	70,948	2,136,142
Other comprehensive loss for the year	-	-	-	(7,340)	38,268	8,416	-	39,344	17,864	57,208
Total comprehensive income/(loss) for the year	-	-	-	(7,340)	38,268	8,416	2,065,194	2,104,538	88,812	2,193,350
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	(69,130)	-	69,130	-	-	-
Transfer to statutory and legal reserves	-	3,837	-	-	-	-	(3,837)	-	-	-
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710,123)	(710,123)	-	(710,123)
Balance at 31 December 2019	**1,775,308**	**907,714**	**312,000**	**(88,720)**	**(273,595)**	**4,292**	**18,895,583**	**21,532,582**	**710,348**	**22,242,930**
(Loss) / profit for the year ended 31 December 2020	**-**	**-**	**-**	**-**	**-**	**-**	**(1,277,826)**	**(1,277,826)**	**72,575**	**(1,205,251)**
Other comprehensive loss for the year	**-**	**-**	**-**	**(9,612)**	**(99,564)**	**(4,729)**	**-**	**(113,905)**	**(7,471)**	**(121,376)**
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**(9,612)**	**(99,564)**	**(4,729)**	**(1,277,826)**	**(1,391,731)**	**65,104**	**(1,326,627)**
Transfer from investments revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**15,071**	**-**	**(15,071)**	**-**	**-**	**-**
Transfer to statutory and legal reserves	**-**	**4,385**	**-**	**-**	**-**	**-**	**(4,385)**	**-**	**-**	**-**
Transaction with non-controlling interest (NCI)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(17,772)**	**(17,772)**
Payment of dividends [Note 21(g)]	**-**	**-**	**-**	**-**	**-**	**-**	**(710,123)**	**(710,123)**	**-**	**(710,123)**
Balance at 31 December 2020	**1,775,308**	**912,099**	**312,000**	**(98,332)**	**(358,088)**	**(437)**	**16,888,178**	**19,430,728**	**757,680**	**20,188,408**

Mashreqbank PSC Group

Consolidated statement of cash flows

	Notes	For the year ended 31 December 2020 AED'000	2020 USD'000 Equivalent	2019 AED'000	2019 USD'000 Equivalent
Cash flows from operating activities					
(Loss) / profit before taxation for the year		**(1,153,411)**	**(314,025)**	2,158,906	587,777
Adjustments for:					
Depreciation and amortisation	32	**231,963**	**63,154**	222,716	60,636
Allowances for impairment, net	31	**3,356,819**	**913,919**	1,212,187	330,026
Gain on disposal of property and equipment	30	**(8,110)**	**(2,208)**	(8,865)	(2,414)
Gain from disposal of investment properties	30	**-**	**-**	600	163
Unrealised (gain) / loss on other financial assets held at FVTPL	29	**(9,564)**	**(2,604)**	13,524	3,682
Fair value adjustments of investment properties	30	**23,876**	**6,500**	13,244	3,606
Net realized gain from sale of other financial assets measured at FVTPL	29	**(43,145)**	**(11,747)**	(76,614)	(20,859)
Dividend income from other financial assets measured at FVTOCI	29	**(24,961)**	**(6,796)**	(23,758)	(6,468)
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	29	**(242,328)**	**(65,976)**	(62,068)	(16,898)
Share of loss from associate		**(8,359)**	**(2,276)**	-	-
Unrealised loss on derivatives	30	**19,602**	**5,337**	20,260	5,516
Operating cash flows before tax paid and changes in operating assets and liabilities		**2,142,382**	**583,278**	3,470,132	944,767
Tax paid		**(51,840)**	**(14,114)**	(22,764)	(6,198)
Changes in operating assets and liabilities					
Increase in deposits with central banks		**(346,953)**	**(94,460)**	(2,217,619)	(603,762)
Increase in deposits and balances due from banks maturing after three months		**(309,339)**	**(84,220)**	(2,201,971)	(599,502)
Decrease/ (increase) in loans and advances measured at amortised cost		**1,755,721**	**478,007**	(6,486,591)	(1,766,020)
Increase in Islamic financing and investment products measured at amortised cost		**(102,448)**	**(27,892)**	(1,600,851)	(435,843)
Increase in reinsurance assets		**(306,002)**	**(83,311)**	(113,120)	(30,798)
Increase in other assets		**(1,089,214)**	**(296,546)**	(269,203)	(73,292)
Decrease/ (increase) in financial assets carried at FVTPL		**3,893**	**1,060**	(612,458)	(166,746)
Increase / (decrease) in repurchase agreements with banks		**1,201,186**	**327,031**	(147,444)	(40,143)
Increase / (decrease) in customers' deposits		**(63,599)**	**(17,315)**	3,917,716	1,066,626
(Decrease) / increase in Islamic customers' deposits		**(2,644,695)**	**(720,037)**	3,832,554	1,043,440
Increase in deposits and balances due to banks		**3,659,885**	**996,429**	1,243,837	338,643
Increase in insurance contract liabilities		**493,990**	**134,493**	176,629	48,088
Increase / (decrease) in other liabilities		**858,350**	**233,692**	(311,102)	(84,700)
Net cash generated from / (used in) operating activities		**5,201,317**	**1,416,095**	(1,342,255)	(365,440)

Mashreqbank PSC Group

Consolidated statement of cash flows (continued)

		For the year ended 31 December			
		2020		2019	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	12	**(336,461)**	**(91,604)**	(378,200)	(102,967)
Purchase on intangible assets	13	**(137,468)**	**(37,427)**	(76,207)	(20,747)
Proceeds from sale of property and equipment		**117,500**	**31,990**	9,782	2,663
Proceeds from sale of investment properties		**-**	**-**	2,450	667
Purchase of other financial assets measured at fair value or amortised cost		**(12,740,338)**	**(3,468,646)**	(9,020,116)	(2,455,790)
Proceeds from sale of other financial assets measured at fair value or amortised cost		**8,885,295**	**2,419,084**	7,773,847	2,116,484
Dividend income from other financial assets measured at FVTOCI	29	**24,961**	**6,796**	23,758	6,468
Net cash used in investing activities		**(4,186,511)**	**(1,139,807)**	(1,664,686)	(453,222)
Cash flows from financing activities					
Transaction with NCI		**(17,772)**	**(4,839)**	-	-
Dividend paid		**(710,123)**	**(193,336)**	(710,123)	(193,336)
Medium term notes issued		**2,355,258**	**641,236**	9,972,949	2,715,205
Medium term notes redeemed		**(4,577,973)**	**(1,246,385)**	(6,319,581)	(1,720,550)
Net cash (used in) / generated from financing activities		**(2,950,610)**	**(803,324)**	2,943,245	801,319
Net decrease in cash and cash equivalents		**(1,935,804)**	**(527,036)**	(63,696)	(17,342)
Net foreign exchange difference		**9,613**	**2,617**	(7,340)	(1,999)
Cash and cash equivalents at 1 January		**22,766,807**	**6,198,423**	22,837,843	6,217,765
Cash and cash equivalents at 31 December	35	**20,840,616**	**5,674,004**	22,766,807	6,198,423

1 General information

Mashreqbank PSC (the "Bank") was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank carries on retail banking, commercial banking, investment banking, Islamic banking, brokerage and asset management activities through its branches in the United Arab Emirates, Bahrain, Kuwait, Egypt, Hong Kong, India, Qatar, the United Kingdom and the United States of America.

The accompanying consolidated financial statements combine the activities of the Bank and its subsidiaries (collectively the "Mashreqbank PSC Group" or "Group"), as listed in Note 36.

The address of the Bank's registered office is P.O. Box 1250, Dubai, United Arab Emirates.

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

2.1 New and revised IFRS applied on the consolidated financial statements

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

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

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

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

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

2.1 New and revised IFRS applied on the consolidated financial statements (continued)

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

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

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

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

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

2.2 New and revised IFRS issued but not yet effective and not early adopted

The Group has not yet applied the following new standards, amendments and interpretations that have been issued but are not yet effective:

New standards, amendments and interpretations	Effective for annual periods beginning on or after
IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows. Management expects that the adoption of IFRS 17 will have an impact on the amounts reported and disclosures made in these consolidated financial statements in respect of its insurance contracts issued and reinsurance contracts held. However, it is not practicable to provide a reasonable estimate of the effects of the application of this standard until the Group performs a detailed review. Management has completed the gap analysis in relation to this standard and is currently in the process of performing a detailed assessment of the impact of the above new standard on the Group's consolidated financial statements.	1 January 2023

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **Amendments to IAS 1, Presentation of financial statements' on classification of liabilities -** These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	1 January 2022

The impact of the above amendment is expected to be immaterial on the consolidated financial statements of the Group.

• **Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 9 and IFRS 16**	1 January 2022

Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations.

Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss.

Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making.

Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'.

The impact of the above amendments is expected to be immaterial on the consolidated financial statements of the Group.

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **Phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – interest rate benchmark (IBOR) reform** The Phase 2 amendments that were issued on 27 August 2020 address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform (for example, where lease payments are indexed to an IBOR rate). Refer to note 43 of the financial statements for the Group's program on IBOR reform.	1 January 2021

There are no other relevant applicable new standards and amendments to published standards or IFRIC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2020 that would be expected to have a material impact on the consolidated financial statements of the Group.

3 Summary of significant accounting policies

3.1 Statement of compliance

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

Federal Decree Law No. 26 of 2020 which amends certain provisions of Federal Law No. 2 of 2015 on Commercial Companies was issued on 27 September 2020 and the amendments came into effect on 2 January 2021. The Bank is in the process of reviewing the new provisions and will apply the requirements thereof no later than one year from the date on which the amendments came into effect.

3.2 Basis of preparation

The consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments, including derivatives, investment properties and reserves for unit linked policies which are measured at fair value.

Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in Arab Emirates Dirham (AED) and all values are rounded to the nearest thousands AED, except where otherwise indicated.

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

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

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation

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

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

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

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

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

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

Profit or loss of each component of other comprehensive income is attributable to the owners of the Group and to the non-controlling interests. Total comprehensive income of subsidiaries is attributable to the owners of the Bank and to the non-controlling interest even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intragroup assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries

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

When a change in the Group's ownership interest in a subsidiary results in a loss of control over the subsidiary, the assets and liabilities of the subsidiary including any goodwill are derecognised. Amounts previously recognised in other comprehensive income in respect of that entity are also reclassified to the consolidated statement of profit or loss or transferred directly to retained earnings.

Any retained equity interest in the entity is remeasured at fair value. The difference between the carrying amount of the retained interest at the date when control is lost and its fair value is recognised in the consolidated statement of profit or loss.

The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IFRS 9 'Financial Instruments' or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Business combinations

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Business combinations (continued)

The excess of the

- consideration transferred;
- amount of any non-controlling interest in the acquired entity; and
- acquisition date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated statement profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

3.4 Goodwill

Goodwill arising on acquisition of a business is carried at cost as established at the date of acquisition of the business (see Note 3.3 above) less accumulated impairment losses, if any. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

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

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

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition

(a) Interest income and expense

Interest income and expense for all interest-bearing financial instruments is calculated by applying the effective interest rate (refer Note 3.14.1) to the gross carrying amount of the financial instrument, except for financial assets that have subsequently become credit-impaired (or stage 3), for which interest income is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision) and are recognised within 'interest income' and 'interest expense' in the consolidated statement of profit or loss.

(b) Income from Islamic financing and investments products

The Group's policy for recognition of income from Islamic financing and investments products is described in Note 3.20 *(iii)*.

(c) Fee and commission income and expenses

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

(i) Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.

(ii) Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(d) Dividend income

Dividend income from investments is recognised in the consolidated statement of profit or loss when the Group's right to receive dividend has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of Income can be measured reliably).

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition (continued)

(e) Insurance contracts revenue and insurance commission income

Premiums are recognised as revenue (earned premium) on time-proportion basis over the effective period of policy coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability.

Premium on life assurance policies are accounted for on the date of writing of policies and on subsequent due dates.

Insurance commission income is recognised when the policies are written based on the terms and percentages agreed with the reinsurers.

(f) Gain or loss from redemption of medium-term loans

Gain or loss from redemption of medium-term loans represents the difference between the amount paid and the carrying amount of the liability on the date of redemption.

(g) Rental income

Rental income from investment property which are leased under operating leases are recognised on a straight-line basis over the term of the relevant lease.

3.6 Leasing

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

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

3 Summary of significant accounting policies (continued)

3.6 Leasing (continued)

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

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

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

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

3.7 Foreign currencies

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in UAE Dirham (AED), which is the functional currency of the Bank, and the presentation currency for the consolidated financial statements.

The presentation currency of the Group is the UAE Dirham (AED); however, for presentation purposes only, additional columns for US Dollar (USD) equivalent amounts have been presented in the consolidated statement of financial position, consolidated statement of profit or loss, consolidated statement of comprehensive income and consolidated statement of cash flows and certain notes to the consolidated financial statements using a fixed conversion rate of USD 1.00 = AED 3.673.

In preparing the financial statements of the individual entities, transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

3 Summary of significant accounting policies (continued)

3.7 Foreign currencies (continued)

Exchange differences are recognised in the consolidated statement of profit or loss in the period in which they arise except for:

- Exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on foreign currency borrowings;
- exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised initially in the foreign currency translation reserve and recognised in consolidated statement of profit or loss on disposal of the net investment.

For the purpose of presenting these consolidated financial statements, the assets and liabilities of the Group’s foreign operations are expressed in AED using exchange rates prevailing at the reporting date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that year, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as equity and recognised in the Group’s Currency translation reserve. Such exchange differences are recognised in the consolidated statement of profit or loss in the period in which the foreign operation is disposed.

In addition, in relation to a partial disposal of a subsidiary that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in the consolidated statement of profit or loss. For all other partial disposals (i.e. partial disposals of associates or jointly controlled entities that do not result in the Bank losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to the consolidated statement of profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in equity.

3 Summary of significant accounting policies (continued)

3.8 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3.9 Investment properties

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

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the profit or loss in the period of retirement or disposal.

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

3 Summary of significant accounting policies (continued)

3.10 Property and equipment

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Freehold land and capital work in progress are not depreciated.

Depreciation is recognised so as to write off the cost of assets (other than land and capital work in progress), using the straight-line method, over the estimated useful lives of the respective assets, as follows:

	Years
Properties for own use	20 – 50
Furniture, fixtures, equipment and vehicles	4 - 15
Improvements to freehold properties and others	5 - 10

The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Capital work-in-progress are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3 Summary of significant accounting policies (continued)

3.11 Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised in the consolidated statement of profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years.

3.12 Intangible assets

Intangible assets include software which are stated at cost less amortisation and any accumulated impairment losses. Amortisation is charged on a straight lines over the estimated useful lives of 5 to 10 years. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

3 Summary of significant accounting policies (continued)

3.13 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

3.14 Financial instruments

Financial assets and financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit and loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit and loss are recognised immediately in the consolidated statement of profit or loss. Immediately after initial recognition, an expected credit loss (“ECL”) allowance is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVTOCI, as described in note 43, which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognises the difference as follows:

(a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.

(b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

3.14.1 Financial assets

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

(i) Classification of financial assets

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

Debt instruments:

Debt instruments are measured at amortised cost if both of the following conditions are met:

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

All other financial assets except for debt instruments carried at amortized cost are subsequently measured at fair value.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

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

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and Interest ('SPPI'), and that are not designated at fair value through profit or loss (FVTPL), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 43.

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

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

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

The Group reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and there were no material reclassification during the year.

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

Amortised cost and effective interest method

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

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

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

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

(ii) Impairment of financial assets

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

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

Note 43 provides more detail of how the expected credit loss allowance is measured.

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans

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

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans (continued)

Derecognition other than on a modification

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

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

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

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

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

3.14.2 Financial liabilities

Classification and subsequent measurement

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

- Financial liabilities at fair value through profit or loss: this classification is applied to derivatives, financial liabilities held for trading and other financial liabilities designated as such on initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the change in fair value due to credit risk) and partially profit or loss (the remaining amount of change in the fair value of the liability).

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities (continued)

This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;

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

Derecognition

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

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

3.14.3 Financial guarantee contracts and loan commitments

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

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

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

Loan commitments provided by the Group are measured as the amount of the loss allowance (calculated as described in note 43).

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.4 Foreign exchange gains and losses

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

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

3.15 Offsetting of financial assets and liabilities

Financial assets and liabilities are offset and reported net in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognised amounts or when the Group intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.16 Derivative financial instruments

The Group deals with derivatives such as forward foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency and interest rate options (both written and purchased). Further details of derivatives financial instruments are disclosed in Note 41. Derivatives are initially recognised at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in consolidated statement of profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated statement of profit or loss depends on the nature of the hedge relationship. All derivatives are carried at their fair values as assets where the fair values are positive and as liabilities where the fair values are negative. Fair values are generally obtained by reference to quoted market prices, discounted cash flow models and recognised pricing models as appropriate.

3 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments (continued)

(a) Embedded derivatives

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 *Financial Instruments* (e.g. financial liabilities) are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

3.17 Hedge accounting

The Group designates certain hedging instruments, which include derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

Note 41 sets out details of the fair values of the derivative instruments used for hedging purposes.

Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognised in the consolidated statement of profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the consolidated statement of profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to the consolidate statement of profit or loss from that date.

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cash flow hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in consolidated statement of profit or loss, and is included in the other income line item.

Amounts previously recognised in the consolidated statement of comprehensive income and accumulated in equity are reclassified to consolidated statement of profit or loss in the periods when the hedged item affects in the recognition of a non-financial assets or a non-financial liability, the gains and losses previously recognised in consolidated statement of comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in the consolidated statement of comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecase transaction is ultimately recognised in the consolidated statement of profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in the consolidated statement of profit or loss.

Hedges of net investments in foreign operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in the consolidated statement of comprehensive income and accumulated under the heading of cumulative translation reserve. The gain or loss relating to the ineffective portion is recognised immediately in the consolidated statement of profit or loss.

Gains and losses on the hedging instrument relating to the effective portion of the hedge accumulated in the cumulative translation reserve are reclassified to the consolidated statement of profit or loss on the disposal of the foreign operation.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts

3.18.1 Product classification

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

Investment contracts are those contracts that transfer significant financial risk. Financial risk is the risk of a possible future change in one or more of a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of price or rates, credit rating or credit index or other variable provided in the case of a non-financial variable, that the variable is not specific to a party to the contract.

Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime even if the insurance risk reduces significantly during this period unless all rights and obligations are extinguished or expire. An investment contract can however be classified as an insurance contract after its inception if the insurance risk becomes significant.

Some insurance contracts and investment contracts contain discretionary participating features (DPF) which entitle the contract holder to receive, as a supplement to the standard guaranteed benefits, additional benefits:

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer;
- that are contractually based on:

  (i) the performance of a specified pool of contracts or a specified type of contract,
  (ii) realised/unrealised investment returns on a specified pool of assets held by the issuer or,
  (iii) the profit or loss of the Company, fund or other entity that issues that contract.

Under IFRS 4 *Insurance Contracts*, DPF can be either treated as an element of equity or as a liability, or can be split between the two elements. The Group policy is to treat all DPF as liabilities within insurance or investment contract liabilities.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

The policyholder bears the financial risks relating to some insurance contracts or investment contracts. Such products are usually unit-linked contracts.

3.18.2 Recognition and measurement

Insurance contracts are classified into two main categories, depending on the nature of the risk, duration of the risk and whether or not the terms and conditions are fixed.

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

Premiums are recognised as revenue (earned premiums) proportionally over the period of coverage. The portion of premium received on in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown in the profit and loss before deduction of commission.

Claims and loss adjustment expenses are charged to the profit or loss as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders.

3.18.4 Life assurance contracts

In respect of the short term life assurance contracts, premiums are recognised as revenue (earned premiums) proportionately over the period of coverage. The portion of the premium received in respect of in-force contracts that relates to unexpired risks at the end of the reporting period is reported as the unearned premium liability. Premiums are shown before the deduction of the commission.

In respect of long term life assurance contracts, premiums are recognised as revenue (earned premiums) when they become payable by the contract holder. Premiums are shown before deduction of commission.

Premiums for group credit life policies are recognised when paid by the contract holder.

A liability for contractual benefits that are expected to be incurred in future is recorded when the premiums are recognised. The liability is based on the assumptions as to mortality, persistency, maintenance expenses and investment income that are established at the time the contract is issued. A margin for adverse deviation is included in the assumptions.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

Where a life assurance contract has a single premium or limited number of premium payments due over a significantly shorter period than the period during which the benefits are provided, the excess of the premiums payable over the valuation premiums is deferred and recognised as income in line with the decrease of unexpired insurance risk of the contract in-force or for annuities in force, in line with the decrease of the amount of future benefits expected to be paid.

The liabilities are recalculated at the end of each reporting period using the assumptions established at the inception of the contract.

Claims and benefits payable to contract holders are recorded as expenses when they are incurred.

3.18.5 Reinsurance contracts

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on one or more contracts issued by the Group and that meet the classification requirements for insurance contracts are recognised as reinsurance contracts. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the Group under which the contract holder is another insurer, are included in insurance contracts. The benefits to which the Group is entitled under its reinsurance contracts are recognised as reinsurance contract assets.

The Group assesses its reinsurance contract assets for impairment on a regular basis. If there is objective evidence that the reinsurance contract assets are impaired, the Group reduces the carrying amount of the reinsurance contract assets to their recoverable amounts and recognises that impairment loss in the profit or loss. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as expenses when due.

The Group also assumes reinsurance risk in the normal course of business for life insurance and general insurance contracts where applicable. Premium and claims on assumed reinsurance contracts are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

At the end of the reporting period, proportions of net retained premium of the general insurance and medical insurance are provided to cover portions of risks which have not expired. The reserves are calculated on a time-proportion basis whilst maintaining the minimum reserve requirements required by the regulations relating to insurance companies. Unearned premium for group life and individual life classes of business is estimated by the Group's actuary in the calculation of the insurance contracts liabilities for life assurance business.

(b) Additional reserve

The additional reserve comprises of the provisions made for:

- the estimated excess of potential claims over unearned premiums (premium deficiency),
- the claims incurred but not reported at the end of the reporting period (IBNR), and
- the potential shortfall in the estimated amounts of the unpaid reported claims.

The reserve represents management's best estimates of the potential liabilities at the end of the reporting period. The liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy by the Group's actuary and changes are made to the provision.

(c) Life assurance fund

The life assurance fund is determined by independent actuarial valuation of future policy benefits at the end of each reporting period. Actuarial assumptions include a margin for adverse deviation and generally vary by type of policy, year of issue and policy duration. Mortality and withdrawal rate assumptions are based on experience and industry mortality tables. Adjustments to the balance of the fund are effected by charging to consolidated statement of profit or loss.

(d) Unit-linked liabilities

For unit-linked policies, the liability is equal to the policy account values. The account value is the number of units times the bid price.

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(e) Outstanding claims

Insurance contract liabilities towards outstanding claims are recognised for all claims intimated and unpaid at the end of the reporting period. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the end of the reporting period after reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of claims cannot be known with certainty at the end of the reporting period. The liability is not discounted for the time value of money. No provision for equalisation or catastrophic reserves is recognised. The liability is derecognised when it is expired, discharged or cancelled.

Deferred Policy Acquisition Costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are capitalised as an intangible asset (DAC). All other costs are recognised as expenses when incurred. The DAC is subsequently amortised as follows:

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;
- For long-term insurance contracts, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and
- For long-term investment contracts, DAC is amortised over a period of four years.

3.18.7 Salvage and subrogation reimbursements

Estimates of salvage and subrogation reimbursements are considered as an allowance in the measurement of the insurance liability for claims.

3.18.8 Liability adequacy test

At the end of each reporting period, liability adequacy tests are performed to ensure the adequacy of the insurance contract liabilities. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses, as well as investment income from the assets backing such liabilities, are used. Any deficiency is immediately charged to the profit or loss.

3 Summary of significant accounting policies (continued)

3.19 Taxation

Where applicable, provision is made for current and deferred taxes arising from the operating results of overseas branches that are operating in taxable jurisdictions.

3.20 Islamic financing and investment products

In addition to conventional banking products, the Group offers its customers a variety of non-interest based banking products, which are approved by its Internal Sharia'h Supervision Committee.

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

All Islamic banking products are accounted for in conformity with the accounting policies described below:

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

Murabaha is a sale of goods with an agreed upon profit mark-up on the cost.

The arrangement is referred to as a Murabaha to the Purchase Orderer where the company sells to a customer a commodity or an asset, which the company has purchased and acquired, based on a promise received from customer.

Ijarah

Ijarah is a contract, or part of contractual agreement, that transfers the usufruct of an asset (the underlying asset) for a period of time in exchange for an agreed consideration, from lessor (the owner of underlying asset i.e. the company) to a lessee (the customer).

This may involve a hybrid Ijarah arrangement (known as Ijarah Muntahia Bittamleek) which, in addition to the Ijarah contract, includes a promise (by the company) resulting in transfer of the ownership of the underlying asset to the lessee (the customer) through a sale or gift – independent of Ijarah Contract.

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Istisna'

Istisna' is a contract of sale of specified items to be manufactured or constructed, with an obligation on part of the manufacturer or builder (contractor) to deliver them to the customer upon completion.

Under this arrangement, the Group provides funds to a customer for construction of a real estate and/or manufacturing of any other assets. Istisna' requires properly specifying the finished product. The customer is required to arrange/employ all the resources required to produce the specified asset(s).

Mudaraba

Mudaraba is a partnership in profit whereby one party provides capital (Rab al-Mal) and the other party provides labour (Mudarib). The Mudarib is responsible for investing such funds in a specific enterprise or activity in return for a pre-agreed percentage of the Mudaraba profit. In case of loss, the same is borne by Rab-al-Mal. The Mudarib is not liable for losses except in case of misconduct in respect to Mudaraba fund, negligence and breach of the terms of Mudaraba contract.

Wakala

Wakala is an act of one party (principal) delegating another party (the agent) to perform a permissible activity on his behalf. This may involve Al-Wakalah Bi Al-Istithmar, in which the Company appoints another person an agent to invest its funds with an intention to earn profit, in return for a certain fee (a lump sum of money or a percentage of the amount invested). The agent is obliged to return the invested amount in case of default, negligence or violation of any of the terms and conditions of the Wakala.

(ii) Accounting policy

Islamic financing and investment products are measured at amortised cost, using the effective profit method, less any amounts written off, allowance for doubtful accounts and unearned income. The effective profit rate is the rate that exactly discounts estimated future cash flow through the expected life of the financial asset or liability, or, where appropriate, a shorter period. Allowance for impairment is made against Islamic financing and investment products when their recovery is in doubt taking into consideration IFRS requirements (as explained in Note 3.14.1). Islamic financing and investment products are written off only when all possible courses of action to achieve recovery have proved unsuccessful.

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy

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

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

Murabaha

Murabaha income is recognised on effective profit rate basis over the period of the contract based on the balance outstanding.

Ijara

Ijara income is recognised on effective profit rate basis over the lease term.

Mudaraba

Income or losses on Mudaraba financing are recognised on an accrual basis if they can be reliably estimated. Otherwise, income is recognised on distribution by the Mudarib, whereas the losses are charged to income on their declaration by the Mudarib.

Wakala

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

(iv) Islamic customers' deposits and distributions to depositors

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

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

3 Summary of significant accounting policies (continued)

3.21 Provision for employees' end of service indemnity

Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the financial position date. In addition, in accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using an appropriate discount rate based on management's assumption of average annual increment/promotion costs. The present value of the obligation as at 31 December 2020 is not materially different from the provision computed in accordance with the UAE Labour Law.

The provision arising is disclosed as 'provision for employees' end of service indemnity' in the consolidated statement of financial position under 'other liabilities' (Note 18).

Pension and national contribution for UAE citizens are made by the Group in accordance with Federal Law No. 7 of 1999 and no further liability exists.

3.22 Acceptances

Acceptances are recognised as a financial liability in the consolidated statement of financial position with a contractual right of reimbursement from the customer as a financial asset. Therefore, commitments in respect of acceptances have been accounted for as financial assets and financial liabilities.

3.23 Cash and cash equivalents

For the purposes of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and other balances with the UAE Central Bank (excluding statutory reserve) and money market placements which are maturing within three months from the value date of the deposit or placement. Cash and cash equivalents are carried at amortised cost in the consolidated statement of financial position.

4 Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

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

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

4.1 Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVTOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring Expected Credit Loss (ECL) is further detailed in note 43.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining the criteria for significant increase in credit risk;
- Determining the criteria and definition of default;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

4.2 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the consolidated statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

4.3 Derivative financial instruments

Subsequent to initial recognition, the fair values of derivative financial instruments measured at fair value are generally obtained by reference to quoted market prices, discounted cash flow models, recognised market accepted pricing models and from counterparty statements. When prices are not available, fair values are determined by using valuation techniques which refer to observable market data. These include comparison with similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants.

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

4.4 The ultimate liability arising from claims made under insurance contracts

The estimation of ultimate liability arising from the claims made under insurance contracts is the Group's most critical accounting estimate. There are sources of uncertainty that need to be considered in the estimate of the liability that the Group will eventually pay for such claims. Estimates have to be made at the end of the reporting period for both the expected ultimate cost of claims reported and for the expected ultimate cost of claims incurred but not reported ("IBNR"). Liabilities for unpaid reported claims are estimated using the input of assessments for individual cases reported to the Group and management estimates based on past claims settlement trends for the claims incurred but not reported. At the end of each reporting period, prior year claims estimates are reassessed for adequacy and changes are made to the provision.

5 Cash and balances with central banks

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

	2020 AED'000	2019 AED'000
Cash on hand	**996,803**	908,016
Balances with central banks:		
Current accounts and other balances	**8,124,831**	10,508,330
Statutory deposits	**3,770,307**	5,473,354
Certificates of deposit	**5,050,000**	4,050,000
	17,941,941	20,939,700

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

	2020 AED'000	2019 AED'000
Within the UAE	**14,186,941**	11,733,205
Outside the UAE	**3,755,000**	9,206,495
	17,941,941	20,939,700

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current account balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 0.21% (31 December 2019: 2.08%) per annum

6 Deposits and balances due from banks

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

	2020 AED'000	2019 AED'000
Demand	**2,419,545**	1,456,009
Overnight	**-**	62,441
Time	**25,985,607**	25,156,000
	28,405,152	26,674,450
Less: Allowance for impairment	**(166,122)**	(108,602)
	28,239,030	26,565,848

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

	2020 AED'000	2019 AED'000
Banks within the UAE	**5,878,872**	5,043,396
Banks outside the UAE	**22,526,280**	21,631,054
	28,405,152	26,674,450
Less: Allowance for impairment	**(166,122)**	(108,602)
	28,239,030	26,565,848

(c) *Allowance for impairment movement:*

	2020 AED'000	2019 AED'000
At beginning of the year	**108,602**	66,749
Charge during the year (Note 31)	**54,678**	38,931
Interest in suspense	**2,910**	2,902
Exchange rate and other adjustments	**(68)**	20
At end of the year	**166,122**	108,602

7 Other financial assets

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

	2020 **AED'000**	2019 AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit and loss (FVTPL)		
Debt securities	**815,671**	876,295
Equities		
Quoted	**6,719**	14,990
Unquoted	**1,112**	245
Mutual and other funds	**629,865**	599,310
	1,453,367	1,490,840
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	**6,470,966**	2,466,253
Equities		
Quoted	**459,821**	501,480
Unquoted	**54,949**	63,593
	6,985,736	3,031,326
Total other financial assets measured at fair value (A)	**8,439,103**	4,522,166
(iii) Other financial assets measured at amortised cost		
Debt securities	**11,021,883**	10,901,518
Less: Allowance for impairment	**(21,229)**	(26,365)
Total other financial assets measured at amortised cost (B)	**11,000,654**	10,875,153
Total other financial assets [(A) +(B)]	**19,439,757**	15,397,319

7 Other financial assets (continued)

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

	2020 AED'000	2019 AED'000
Within the UAE	**4,687,824**	3,167,938
Outside the UAE	**14,773,162**	12,255,746
	19,460,986	15,423,684
Less: Allowance for impairment	**(21,229)**	(26,365)
	19,439,757	15,397,319

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

	2020 AED'000	2019 AED'000
Government and public sector	**15,706,622**	10,961,051
Commercial and business	**660,723**	1,182,859
Financial institutions	**3,044,738**	2,784,506
Other	**27,674**	468,903
	19,439,757	15,397,319

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

	2020 AED'000	2019 AED'000
At the beginning of the year	**26,365**	56,329
Reversal during the year (Note 31)	**(5,134)**	(32,317)
Exchange rate and other adjustments	**(2)**	2,353
At end of the year	**21,229**	26,365

(e) The fair value of other financial assets measured at amortised cost amounted to AED 11.33 billion as of 31 December 2020 (31 December 2019: AED 11.10 billion) (Note 43).

(f) At 31 December 2020, certain financial assets measured at amortised cost, financial assets measured at fair value included debt securities with an aggregate carrying value of AED 1,112 million (fair value of AED 1,146 million) [31 December 2019: carrying value of AED 1,093 million (fair value of AED 1,119 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 708 million (31 December 2019: AED 1,089 million).

7 Other financial assets (continued)

(g) During the year ended 31 December 2020, the Group has reviewed its portfolio and sold certain other financial assets measured at amortised cost, resulting in a gain of AED 63 million on the sale.

(h) As of 31 December 2020, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.

(i) During the period from 1 January 2020 to 31 December 2020, dividends received from financial assets measured at FVTOCI amounting to AED 25 million (year ended 31 December 2019: AED 24 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.

(j) As of 31 December 2020, change in fair value of other financial assets measured at FVTPL resulted in gain of AED 10 million (31 December 2019: a loss of AED 14 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).

(k) As of 31 December 2020, change in fair value of other financial assets measured at FVTOCI resulted in a loss of AED 104 million (31 December 2019: a gain of AED 57 million) and was recognised in the consolidated statement of comprehensive income.

(l) During the year ended 31 December 2020, the Group purchased and disposed equity shares amounting to AED 1,227 million (31 December 2019 :1,251 million) and AED 1,251 million (31 December 2019 : 1,303 million) respectively.

8 Loans and advances measured at amortised cost

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

	2020 **AED'000**	2019 AED'000
Loans	**54,811,763**	57,183,573
Overdrafts	**5,331,364**	5,825,415
Credit cards	**1,784,967**	1,887,551
Others	**761,943**	658,109
Total	**62,690,037**	65,554,648
Less: Allowance for impairment	**(5,403,626)**	(3,844,371)
	57,286,411	61,710,277

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

	2020 **AED'000**	2019 AED'000
Manufacturing	**9,193,245**	9,558,830
Construction	**5,409,471**	7,005,045
Trade	**12,839,915**	12,427,310
Transport and communication	**3,091,235**	3,265,643
Services	**5,916,728**	6,525,024
Financial institutions	**1,221,367**	950,620
Personal	**7,697,088**	8,176,471
Residential mortgage	**5,538,042**	5,505,912
Government and related enterprises	**11,782,946**	12,139,793
	62,690,037	65,554,648
Less: Allowance for impairment	**(5,403,626)**	(3,844,371)
	57,286,411	61,710,277

8 Loans and advances measured at amortised cost (continued)

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

	31 December 2020 AED'000	31 December 2019 AED'000
Manufacturing	**341,500**	286,249
Construction	**452,769**	362,027
Trade	**646,108**	223,310
Transport and communication	**136,437**	78,539
Services	**655,002**	336,175
Financial institutions	**68,996**	95,750
Personal	**1,446,062**	1,094,070
Residential mortgage	**140,016**	107,730
Government and related enterprises	**1,516,736**	1,260,521
	5,403,626	3,844,371

(d) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books which have been fully provided. Interest is accrued on most of these accounts for litigation purposes only. As at 31 December 2020 and 2019, legal proceedings are pursued for some of these accounts by the Group in the normal course of business.

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

	2020 AED'000	2019 AED'000
At beginning of the year	**3,844,371**	3,480,583
Impairment allowance for the year (Note 31)	**2,393,760**	830,925
Interest in suspense	**292,394**	147,990
Exchange rate and other adjustments	**9,329**	31,244
Written off during the year	**(1,136,228)**	(646,371)
At end of the year	**5,403,626**	3,844,371

(f) In determining the recoverability of loans and advances, the Group considers any change in the credit quality of the loans and advances measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk at customer level is limited due to the fact that the customer base is large and unrelated.

8 Loans and advances measured at amortised cost (continued)

(g) At 31 December 2020, certain loans and advances measured at amortised cost included loans with an aggregate carrying value of AED 1,435 million (fair value of AED 1,134 million) [31 December 2019: carrying value of AED Nil (fair value of AED Nil)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 550 million (31 December 2019: AED nil).

9 Islamic financing and investment products measured at amortised cost

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

	2020 AED'000	2019 AED'000
Financing		
Murabaha	**8,788,168**	8,798,444
Ijara	**6,087,374**	5,824,623
	14,875,542	14,623,067
Investment		
Wakala	**426,010**	271,835
	426,010	271,835
Total	**15,301,552**	14,894,902
Less: Unearned income	**(647,879)**	(309,555)
Allowance for impairment	**(407,330)**	(128,590)
	14,246,343	14,456,757

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

(b) The analysis of Islamic financing and investment products measured at amortised cost by industry sector is as follows:

	2020 AED'000	2019 AED'000
Manufacturing	**1,025,362**	634,654
Construction	**3,531,481**	4,003,630
Trade	**1,365,946**	1,832,296
Transport and communication	**388,312**	312,759
Services	**3,093,488**	3,230,516
Financial institutions	**1,052,322**	1,079,112
Personal	**2,023,739**	1,231,533
Residential mortgage	**1,155,660**	1,158,522
Government and related enterprises	**1,665,242**	1,411,880
Total	**15,301,552**	14,894,902
Less: Unearned income	**(647,879)**	(309,555)
Allowance for impairment	**(407,330)**	(128,590)
	14,246,343	14,456,757

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

	2020 AED'000	2019 AED'000
Manufacturing	**9,452**	43,756
Construction	**243,891**	15,285
Trade	**55,767**	10,594
Transport and communication	**12,906**	1,299
Services	**22,678**	9,109
Financial institutions	**3,931**	3,716
Personal	**8,571**	9,533
Residential mortgage	**45,782**	34,667
Government and related enterprises	**4,352**	631
	407,330	128,590

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

(d) Allowance for impairment movement:

	2020	2019
	AED'000	AED'000
At beginning of the year	**128,590**	139,056
Impairment allowance for the year (Note 31)	**310,864**	47,611
Profit in suspense	**29,477**	2,716
Exchange rate and other adjustments	**-**	(10,000)
Written off during the year	**(61,601)**	(50,793)
At end of the year	**407,330**	128,590

(e) In determining the recoverability of Islamic financing and investment products, the Group considers any change in the credit quality of the Islamic financing and investment products measured at amortised cost from the date credit was initially granted up to the end of the reporting period. The concentration of credit risk at customer level is limited due to the fact that the customer base is large and unrelated.

(f) At 31 December 2020, certain Islamic financing and investment products measured at amortised cost included with an aggregate carrying value of AED 471 million (fair value of AED 455 million) [31 December 2019: carrying value of AED Nil (fair value of AED Nil)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 222 million (31 December 2019: AED Nil).

10 Other assets

	2020 AED'000	2019 AED'000
Interest receivable	**277,350**	318,671
Property acquired in settlement of debts*	**94,951**	110,196
Prepayments	**70,556**	80,252
Positive fair value of derivatives (Note 41)	**1,512,413**	667,381
Insurance related receivables (net) **	**583,020**	599,005
Insurance related deferred acquisition costs	**154,765**	132,200
Credit card related receivables	**313,322**	245,185
Taxes paid in advance	**102,519**	108,509
Commission / income receivable	**32,758**	44,252
Advances to suppliers/ vendors	**138,395**	119,368
Others	**198,406**	313,246
	3,478,455	2,738,265

* As of 31 December 2020, property acquired in settlement of debts includes property with a book value of AED 209 million (31 December 2019: AED 230 million) against which a provision of AED 114 million is held (31 December 2019: AED 120 million). This includes some properties which are registered in the name of the Chairman on trust and for the benefit of the Group.

** As of 31 December 2020, the Group has recorded a provision of AED 431 million (31 December 2019: AED 458 million) against insurance related receivables.

11 Investment properties

	2020 AED'000	2019 AED'000
At fair value		
At beginning of the year	**473,591**	489,885
Change in fair value during the year (Note 30)	**(23,876)**	(13,844)
Disposals during the year	**-**	(2,450)
At end of the year	**449,715**	473,591

All of the Group's investment properties are held under freehold interest and located in the UAE. As at 31 December 2020, AED 60 million (2019: AED 61 million) was classified as level 2 and AED 390 million (AED 412 million) as level 3 in the fair value hierarchy.

11 Investment properties (continued)

Valuation processes

The Group's investment properties were valued as at 31 December 2020 by independent external professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. The fair value is in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS").

Valuation techniques underlying management's estimation of fair value

Valuation of Group's investment properties was determined using either of Discounted Cash Flow (DCF), Residual valuation, Income capitalization and sales comparison methods based on the available inputs as follows.

DCF method of valuation considers expected net cash flow discounted using discount rates which reflect current market conditions. Residual method considers construction costs for development, capitalization rates based on the location, size, quality of the properties and market data, operational cost estimates to maintain the property for its useful life and estimated vacancy rates. Income capitalization method considers contracted rental income and capitalization rate. Sales comparison approach consider value of comparable properties in close proximity adjusted for differences in key attributes such as property size and quality of interior fittings.

Sensitivity on the fair value of Investment properties based on each methodology was as follows:

For sales comparison method, if the prices of the comparable properties were to increase /(decrease) by +1%/1%, the fair value would increase/(decrease) by AED 0.6 million / (0.6 million). DCF method, if the discount rates were to increase/(decrease) by +0.25%/-0.25% each and considering all other assumptions to remain constant, the fair value would increase/(decrease) by +1%/-1%. Residual or income capitalization method, if the capitalization rates were to increase/(decrease) by +0.25%/-0.25% and considering all other assumptions to remain constant, the fair value would increase/(decrease) by +7%/-6%.

12 Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and others AED'000	Right-of-use assets AED'000	Capital work-in-progress* AED'000	Total AED'000
Cost						
At 1 January 2019	845,860	409,611	163,780	-	389,467	1,808,718
Initial application of IFRS 16	-	-	-	234,777	-	234,777
Additions during the year	-	55,001	43,809	18,898	260,492	378,200
Transfers	(211,024)	1,363	140	-	(7,391)	(216,912)
Disposals/write-offs/elimination	(3,333)	(135,054)	(55,435)	(61,549)	-	(255,371)
At 31 December 2019	**631,503**	**330,921**	**152,294**	**192,126**	**642,568**	**1,949,412**
Additions during the year	**-**	**48,692**	**96,644**	**42,684**	**148,441**	**336,461**
Transfers	**532,928**	**100,192**	**113,061**	**-**	**(746,181)**	**-**
Disposals/write-offs/elimination	**(7,924)**	**(35,919)**	**(135,768)**	**(39,734)**	**-**	**(219,345)**
At 31 December 2020	**1,156,507**	**443,886**	**226,231**	**195,076**	**44,828**	**2,066,528**
Accumulated depreciation and impairment						
At 1 January 2019	187,916	298,657	95,311	-	-	581,884
Initial application of IFRS 16	-	-	-	96,225	-	96,225
Charge for the year (Note 32)	18,848	44,691	29,173	56,934	-	149,646
Disposals/write-offs	(3,333)	(131,042)	(50,412)	(61,549)	-	(246,336)
At 31 December 2019	**203,431**	**212,306**	**74,072**	**91,610**	**-**	**581,419**
Charge for the year (Note 32)	**22,878**	**46,279**	**33,865**	**52,716**	**-**	**155,738**
Disposals/write-offs/elimination	**(3,085)**	**(30,657)**	**(63,921)**	**(39,735)**	**-**	**(137,398)**
At 31 December 2020	**223,224**	**227,928**	**44,016**	**104,591**	**-**	**599,759**
Carrying amount						
At 31 December 2020	**933,283**	**215,958**	**182,215**	**90,485**	**44,828**	**1,466,769**
At 31 December 2019	428,072	118,615	78,222	100,516	642,568	1,367,993

* Capital work-in-progress mainly related to the new Head Office of the Group which has been capitalised during the year.

13 Intangible assets

	Software AED'000
Cost	
At 1 January 2019	489,174
Additions during the year	76,207
Transfers	5,890
Disposals/write-offs/elimination	(44,819)
At 31 December 2019	**526,452**
Additions during the year	**137,469**
Disposals/write-offs/elimination	**(63,021)**
At 31 December 2020	**600,900**
Accumulated depreciation and impairment	
At 1 January 2019	234,423
Charge for the year (Note 32)	73,070
Disposals/write-offs	(43,918)
At 31 December 2019	**263,575**
Charge for the year (Note 32)	**76,225**
Disposals/write-offs/elimination	**(33,342)**
At 31 December 2020	**306,458**
Carrying amount	
At 31 December 2020	**294,442**
At 31 December 2019	262,877

14 Deposits and balances due to banks

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

	2020 **AED'000**	2019 AED'000
Time	**10,117,449**	6,802,998
Demand	**2,079,656**	1,987,182
Overnight	**2,647,275**	2,394,316
	14,844,380	11,184,496

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

	2020 **AED'000**	2019 AED'000
Banks within the UAE	**1,751,736**	2,134,251
Banks outside the UAE	**13,092,644**	9,050,245
	14,844,380	11,184,496

15 Repurchase agreements with banks

	2020 **AED'000**	2019 AED'000
Repurchase agreements	**2,289,723**	1,088,537

The above repurchase agreements with banks are at an average interest rate of 2.66% (31 December 2019: 2.27%) per annum. Collateral provided as security against these Repo borrowings are disclosed in Note 7(f), 8(g) and 9(f) to the consolidated financial statements.

16 Customers' deposits

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

	2020 **AED'000**	2019 AED'000
Current and other accounts	**39,907,698**	32,488,830
Saving accounts	**4,271,221**	2,885,960
Time deposits	**32,197,054**	41,064,782
	76,375,973	76,439,572

16 Customers' deposits (continued)

(b) Analysis by industry sector:

	2020	2019
	AED’000	AED’000
Government and public sector	**5,812,573**	9,753,009
Commercial and business	**48,157,046**	47,012,973
Personal	**17,385,515**	15,914,398
Financial institutions	**4,533,955**	3,592,495
Other	**486,884**	166,697
	76,375,973	76,439,572

17 Islamic customers’ deposits

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

	2020	2019
	AED’000	AED’000
Current and other accounts	**2,649,864**	2,554,782
Saving accounts	**153,396**	123,388
Time deposits	**9,081,306**	11,851,091
	11,884,566	14,529,261

(b) Analysis by industry sector:

	2020	2019
	AED’000	AED’000
Government and public sector	**456,559**	545
Commercial and business	**3,246,715**	4,014,033
Personal	**955,007**	801,454
Financial institutions	**7,226,285**	9,713,229
	11,884,566	14,529,261

18 Other liabilities

	2020	2019
	AED'000	AED'000
Interest payable	**552,774**	631,704
Negative fair value of derivatives (Note 41)	**1,292,784**	607,014
Insurance related payables	**594,729**	755,461
Accrued expenses	**925,219**	568,702
Income received in advance	**295,802**	297,334
Pay orders issued	**550,775**	420,930
Provision for employees' end of service indemnity**	**248,331**	234,499
Provision for taxation	**90,936**	69,645
Lease liability	**82,160**	93,891
Others	**706,656**	1,112,593
Allowance for impairment – off balance sheet	**468,742**	158,785
	5,808,908	4,950,558

** Provision for employees' end of service indemnity included AED 231 million (31 December 2019: AED 216 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per UAE Labour Law.

The remaining amount of provision for employees' end of service indemnity relates to overseas branches and subsidiaries outside UAE and is computed based on the local laws and regulations of respective jurisdictions.

19 Medium-term loans

	2020	2019
	AED'000	AED'000
Medium term notes	**9,616,042**	11,838,757

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

Year	**2020**	2019
	AED'000	AED'000
2020	**-**	4,370,545
2021	**2,225,351**	1,624,111
2022	**2,126,261**	1,780,371
2023	**402,886**	250,557
2024	**3,994,994**	3,775,725
2025	**826,462**	-
2029	**40,088**	37,448
	9,616,042	11,838,757

Medium term notes are denominated in following currencies:

	2020	2019
	AED'000	AED'000
U.S. Dollars	**6,904,126**	9,703,241
Japanese Yen	**887,436**	896,221
Australian Dollars	**56,785**	-
Chinese Yuan	**1,161,424**	617,109
Euro	**90,246**	161,112
South African Rand	**40,077**	-
Great Britain Pound	**475,948**	461,074
	9,616,042	11,838,757

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

During the year ended 31 December 2020, new medium-term notes of AED 2.3 billion were issued and AED 4.6 billion of medium-term notes were redeemed.

20 Insurance contract liabilities and reinsurance contract assets

	2020	2019
	AED'000	AED'000
Insurance contract liabilities		
Outstanding claims	**2,295,448**	1,946,066
Incurred but not reported claims reserve	**623,989**	483,661
Life assurance fund	**133,755**	172,799
Unearned premium	**1,295,244**	1,310,585
Unit linked liabilities	**391,701**	332,324
Unallocated loss adjustment expenses reserve	**7,642**	8,354
	4,747,779	4,253,789

	2020	2019
	AED'000	AED'000
Recoverable from re-insurers		
Outstanding claims	**1,838,783**	1,527,696
Incurred but not reported claims reserve	**344,412**	313,844
Life assurance fund	**24,981**	30,497
Unearned premium	**683,744**	713,881
	2,891,920	2,585,918

	2020	2019
	AED'000	AED'000
Insurance contract liabilities-net		
Outstanding claims	**456,665**	418,370
Incurred but not reported claims reserve	**279,577**	169,817
Life assurance fund	**108,774**	142,302
Unearned premium	**611,500**	596,704
Unit linked liabilities	**391,701**	332,324
Unallocated loss adjustment expenses reserve	**7,642**	8,354
	1,855,859	1,667,871

20 Insurance contract liabilities and reinsurance contract assets (continued)

20.1 Movement in the provision for outstanding claims, IBNR and unallocated loss adjustment expenses and the related reinsurers' share

	2020			2019		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
At 1 January	**2,438,081**	**(1,841,540)**	**596,541**	2,198,056	(1,690,257)	507,799
Claims incurred during the year	**2,772,951**	**(1,668,815)**	**1,104,136**	2,603,569	(1,456,820)	1,146,749
Claims settled during the year	**(2,283,953)**	**1,327,160**	**(956,793)**	(2,363,544)	1,305,537	(1,058,007)
At 31 December	**2,927,079**	**(2,183,195)**	**743,884**	2,438,081	(1,841,540)	596,541

20.2 Movement in life assurance fund

	AED'000
At 1 January 2019	173,331
Net movement during the year	(31,029)
At 31 December 2019	**142,302**
Net movement during the year	**(33,528)**
At 31 December 2020	**108,774**

20. 3 Movement in unit linked liabilities

	AED'000
At 1 January 2019	319,883
Net movement during the year	12,441
At 31 December 2019	**332,324**
Net movement during the year	**59,377**
At 31 December 2020	**391,701**

20 Insurance contract liabilities and reinsurance contract assets (continued)

The following table presents the sensitivity of the value of insurance contract liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance contract liabilities. For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No losses arose in either 2020 or 2019, based on the results of the liability adequacy test. The table below indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of further deterioration in the variable.

	Change in assumptions	**Increase /(decrease) in net liability**	
		2020	2019
		AED'000	AED'000
Morality/morbidity	**+10%**	**620**	763
Discount rate	**+75bps**	**(3,149)**	(4,105)
Morality/morbidity	**-10%**	**(625)**	(767)
Discount rate	**-75bps**	**3,400**	4,456

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

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

(b) Statutory and legal reserves

In accordance with UAE Federal Law No. (2) of 2015, 10% of net profit for the year is to be transferred to the statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the UAE. this level is 50% of the issued and paid up share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

(c) General reserve

The general reserve is computed pursuant to the Bank's Articles of Association and can be used for the purposes determined by the Annual General Meeting.

21 Issued and paid up capital and reserves (continued)

(d) Currency translation reserve

Exchange differences relating to the translation of the results and net assets of the Group's foreign operations from their functional currencies to the Group's presentation currency (i.e. AED), are recognised directly in consolidated statement of comprehensive income and accumulated in the Currency translation reserve. Gains and losses on hedging instruments that are designated as hedging instruments for hedges of net investments in foreign operations are included in the Currency translation reserve. Exchange differences previously accumulated in the Currency translation reserve (in respect of translating both the net assets of foreign operations and hedges of foreign operations) are reclassified to the consolidated statement of profit or loss on the disposal or reduction of net equity via distribution of the foreign operation.

(e) Investments revaluation reserve

Investments revaluation reserve shows the effects from the fair value measurement of Financial assets measured at FVTOCI. The change in fair value for the year amounted to a loss of AED 104 million (31 December 2019: gain of AED 57 million) and was reflected in the consolidated statement of comprehensive income [note 7(k)].

(f) Cash flow hedge reserve

The cash flow hedging reserve represents the cumulative effective portion of gains or losses arising on changes in fair value of cross currency swap hedging instruments entered into for cash flow hedges. The cumulative gain or loss arising on changes in fair value for cross currency swap of the hedging instruments that are recognised and accumulated under the heading of cash flow hedging reserve will be reclassified to consolidated statement of profit or loss only when the hedged transaction affects the consolidated statement of profit or loss, or included as a basis adjustment to the non-financial hedged item, consistent with the Group’s accounting policy.

(g) Dividends on equity instruments

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

22 Non-controlling interests

	2020 AED'000	2019 AED'000
At beginning of the year	**710,348**	621,585
Initial application of IFRS 16	**-**	(49)
Share of profit for the year (Note 36)	**72,575**	70,948
Share of other comprehensive (loss)/ income for the year	**(7,471)**	17,864
Transaction with NCI	**(17,772)**	-
At end of the year	**757,680**	710,348

23 Contingent liabilities and commitments

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

	2020 AED'000	2019 AED'000
Guarantees	**40,270,247**	43,922,209
Letters of credit	**9,235,601**	7,845,546
Commitments for capital expenditure	**317,697**	485,774
	49,823,545	52,253,529

(b) Irrevocable undrawn credit facilities commitments as at 31 December 2020 amounted to AED 6.25 billion (31 December 2019: AED 6.96 billion).

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

24 Interest income

	2020 AED'000	2019 AED'000
Loans and advances	**2,895,464**	3,738,920
Banks	**847,521**	1,188,411
Central banks	**148,669**	283,191
Other financial assets measured at amortised cost	**444,623**	551,234
Others	**178,647**	119,658
	4,514,924	5,881,414

25 Income from Islamic financing and investment products

	2020 AED'000	2019 AED'000
Financing		
Murabaha	**304,587**	388,386
Ijara	**209,738**	352,642
Other	**-**	3,682
	514,325	744,710
Investment		
Mudaraba	**-**	104
Wakala	**29,152**	8,831
	29,152	8,935
Total	**543,477**	753,645

26 Interest expense

	2020 AED'000	2019 AED'000
Customers' deposits	**1,320,733**	1,697,191
Deposits and balances due to banks	**457,305**	558,745
Medium-term loans	**332,659**	361,919
	2,110,697	2,617,855

27 Distribution to depositors – Islamic products

This represents the share of income allocated to depositors of the Group. The allocation and distribution to depositors is approved by the Group's Internal Shari'ah Supervision Committee.

28 Net fee and commission income

	2020 AED'000	2019 AED'000
Fee and commission income		
Commission income	**481,081**	518,576
Insurance commission	**195,032**	262,992
Fees and charges on banking services	**598,659**	649,629
Credit card related fees	**1,167,108**	1,290,650
Others	**200,656**	181,859
Total	**2,642,536**	2,903,706
Fee and commission expenses		
Commission expense	**(27,235)**	(33,192)
Insurance commission	**(324,485)**	(370,954)
Credit card related expenses	**(986,744)**	(1,040,024)
Others	**(84,560)**	(94,049)
Total	**(1,423,024)**	(1,538,219)
Net fee and commission income	**1,219,512**	1,365,487

29 Net investment income

	2020 AED'000	2019 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	**43,145**	76,614
Unrealised gain / (loss) on other financial assets measured at FVTPL [Note 7(j)]	**9,564**	(13,524)
Dividend income from other financial assets measured at FVTPL	**1,382**	862
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	**242,328**	62,068
Dividend income from other financial assets measured at FVTOCI [Note 7 (i)]	**24,961**	23,758
	321,380	149,778

30 Other income, net

	2020 AED'000	2019 AED'000
Foreign exchange gains	**390,141**	341,521
Insurance related income (Note 36)	**528,027**	489,314
Gain on disposal of property and equipment	**8,110**	8,865
Loss from disposal of investment properties (Note 11)	**-**	(600)
Unrealised loss on derivatives	**(19,602)**	(20,260)
Unrealised loss on investment properties (Note 11)	**(23,876)**	(13,244)
Others	**48,272**	(33,821)
	931,072	771,775

31 Allowances for impairment, net

	2020 AED'000	2019 AED'000
Deposits and balances due from banks [Note 6(c)]	**54,678**	38,931
Other financial assets measured at amortised cost [Note 7(d)]	**(5,134)**	(32,317)
Other financial assets measured at FVOCI	**728**	872
Loans and advances measured at amortised cost [Note 8(e)]	**2,393,760**	830,925
Islamic financing and investment products measured at amortised cost [Note 9(d)]	**310,864**	47,611
Other assets	**13,441**	13,808
Change in impairment allowance on off-balance sheet items	**312,099**	890
Loans and advances including Islamic financing and investment products measured at amortized cost written off	**327,384**	390,468
Recovery of loans and advances including Islamic financing and investment products measured at amortised cost previously written off	**(51,001)**	(79,001)
	3,356,819	1,212,187

32 General and administrative expenses

	2020 AED'000	2019 AED'000
Salaries and employees related expenses	**1,535,704**	1,615,176
Depreciation on property and equipment (Note 12)	**155,738**	149,646
Amortisation on intangible assets (Note 13)	**76,225**	73,070
Social contribution	**3,733**	1,504
Others	**1,173,456**	783,707
	2,944,856	2,623,103

33 (Loss) / earnings per share

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

	2020	2019
(Loss) / profit for the year (AED'000) (Attributed to owners of the Parent)	**(1,277,826)**	2,065,194
Number of ordinary shares outstanding [Note 21 (a)]	**177,530,823**	177,530,823
Basic and diluted (loss) / earnings per share (AED)	**(7.20)**	11.63

34 Proposed dividends

The board of Directors do not propose any cash dividend for the year ended 31 December 2020.

35 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central bank, certificates of deposits, balances with banks and money market placements which are maturing within three months from the value date of the deposit or placement, as below. Due to banks and repurchase agreements maturing within 3 months which were previously classified within cash and cash equivalents have now been shown as part of operating activities in the cash flow statement to be consistent with the current year presentation.

	2020 AED'000	2019 AED'000
Cash on hand	**996,803**	908,016
Current accounts and other balances with central banks	**8,124,832**	10,508,330
Certificates of deposit maturing within 3 months	**-**	1,050,000
Deposits and balances due from banks maturing within 3 months	**11,718,981**	10,300,461
	20,840,616	22,766,807

36 Investment in subsidiaries and associates

(a) At 31 December 2020, Mashreqbank PSC Group (the "Group") comprises the Bank and the following direct subsidiaries and associates:

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

36 Investment in subsidiaries and associates (continued)

(b) Financial details of non-wholly owned subsidiaries of the Bank are as follows:

Name of subsidiary	Profit/(loss) allocated to non-controlling interest		Accumulated non-controlling interests	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Oman Insurance Company (PSC) Group	**72,330**	71,038	**748,973**	705,110
Individually immaterial subsidiaries with non - controlling interests	**245**	(90)	**8,707**	5,238
	72,575	70,948	**757,680**	710,348

(c) Other financial assets measured at FVTPL include investments by Oman Insurance Company PSC amounting to AED 394 million (31 December 2019: AED 378 million).

(d) During the year ended 31 December 2020, the Group sold investments held at fair value through other comprehensive income amounting to AED 133 million at the time of sale (31 December 2019: AED 272 million). The Group realised a loss of AED 27 million (31 December 2019: gain of 107 million) which was transferred to retained earnings.

36 Investment in subsidiaries and associates (continued)

(e) Below is the summarised financial information of Oman Insurance Company (PSC) Group, the only subsidiary in which there is a material non-controlling interest. The financial information represents balances before intra-group eliminations.

	2020 AED'000	2019 AED'000
Statement of financial position		
Total assets	**7,634,687**	7,086,843
Total liabilities	**5,558,920**	5,171,156
Net equity	**2,075,767**	1,915,687

	2020 AED'000	2019 AED'000
Statement of comprehensive income		
Gross insurance premium	**3,585,104**	3,545,062
Less: Insurance premium ceded to reinsurers	**(1,952,002)**	(1,934,027)
Net retained premium	**1,633,102**	1,611,035
Net change in unearned premium and mathematical reserve	**(939)**	25,028
Net earned insurance premium	**1,632,163**	1,636,063
Gross claims settled	**(2,283,953)**	(2,363,544)
Insurance claims recovered from reinsurers	**1,327,160**	1,305,537
Net claims settled	**(956,793)**	(1,058,007)
Net change in outstanding claims and additional reserve	**(147,343)**	(88,742)
Net claims incurred	**(1,104,136)**	(1,146,749)
Insurance related income (Note 30)	**528,027**	489,314
Net commission and other loss	**(87,085)**	(57,310)
Net investment income	**90,296**	91,695
Net expenses	**(334,693)**	(333,154)
Profit for the year	**196,545**	190,545
Other comprehensive (loss) / income	**(15,463)**	54,167
Total comprehensive income	**181,082**	244,712
Statement of cash flows		
Net cash generated from operating activities	**199,106**	250,589
Net cash used in investing activities	**(45,780)**	(207,169)
Net cash used in financing activities	**(26,950)**	(74,901)
Net increase / (decrease) in cash and cash equivalents	**126,376**	(31,481)

37 Related party transactions

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

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

	2020	2019
	AED'000	AED'000
Balances with major shareholders		
Loans and advances	**3,575,543**	4,001,254
Deposits/ financial instruments under lien	**979,128**	801,542
Letter of credit and guarantees	**1,362,098**	1,568,804
Balances with directors and key management personnel		
Loans and advances	**72,488**	83,227
Deposits/ financial instruments under lien	**189,520**	189,052
Letter of credit and guarantees	**82,832**	106,747

(c) (Loss)/profit for the year includes related party transactions as follows:

	2020	2019
	AED'000	AED'000
Transactions with major shareholders		
Interest income	**135,070**	185,109
Interest expense	**1,705**	1,778
Other income	**46,120**	46,073
Transactions with directors and key management personnel		
Interest income	**3,198**	4,024
Interest expense	**490**	839
Other income	**501**	1,073

(d) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 38 million (31 December 2019: AED 128 million).

38 Concentration of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2020			31 December 2019		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
UAE.	**87,839,540**	**72,494,789**	**31,227,767**	87,292,022	72,500,184	33,887,679
Other Middle East Countries	**27,550,381**	**24,881,814**	**6,145,460**	27,708,129	23,802,313	5,976,934
O.E.C.D.	**17,423,643**	**21,325,242**	**5,301,288**	20,500,957	20,421,622	4,729,767
Others	**25,709,676**	**19,632,987**	**6,831,333**	23,929,875	20,463,934	7,173,375
	158,523,240	**138,334,832**	**49,505,848**	159,430,983	137,188,053	51,767,755

(b) Industry Sectors

	31 December 2020			31 December 2019		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Government and public sector	**28,620,730**	**6,502,837**	**234,787**	24,272,006	9,940,082	171,384
Commercial & business	**54,486,979**	**65,843,185**	**38,604,914**	63,308,000	64,689,642	41,548,590
Personal	**15,180,851**	**18,869,364**	**407,917**	15,698,521	17,705,829	710,091
Financial institutions	**58,659,697**	**46,260,813**	**10,198,730**	54,577,712	44,101,826	9,248,130
Others	**1,574,983**	**858,633**	**59,500**	1,574,744	750,674	89,560
	158,523,240	**138,334,832**	**49,505,848**	159,430,983	137,188,053	51,767,755

39 Segmental information

Reportable segments

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

Reportable segments

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

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

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

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

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

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

39 Segmental information (continued)

Reportable segments (continued)

(v) The Insurance subsidiary, Oman Insurance Company (PSC) Group – comprises the Insurance segment. The product offerings to customers include life, health, motor, marine cargo and hull, aviation, fire and general accident, engineering, liability and personal lines insurance.

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the consolidated financial statement Segment profit represents the profit earned by each segment without allocation of general and administrative expenses, allowances for impairment and tax expenses.

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2020						
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	**1,011,205**	**1,011,610**	**(40,898)**	**299,016**	**82,343**	**313,024**	**2,676,300**
Fee, commission and other income, net	**608,647**	**528,710**	**691,418**	**185,770**	**449,051**	**8,368**	**2,471,964**
Operating income	**1,619,852**	**1,540,320**	**650,520**	**484,786**	**531,394**	**321,392**	**5,148,264**
General and administrative expenses							**(2,944,856)**
Operating profit before impairment							**2,203,408**
Allowances for impairment, net							**(3,356,819)**
Loss before tax							**(1,153,411)**
Tax expense							**(51,840)**
Loss for the year							**(1,205,251)**
Attributable to:							
Owners of the Parent							**(1,277,826)**
Non-controlling interests							**72,575**
							(1,205,251)
Segment Assets	**59,657,530**	**17,073,297**	**42,811,800**	**11,915,327**	**7,513,691**	**19,551,595**	**158,523,240**
Segment Liabilities	**52,280,170**	**32,903,933**	**20,909,575**	**10,986,188**	**5,529,196**	**15,725,770**	**138,334,832**

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2019						
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	1,421,931	1,213,327	242,340	303,807	86,894	438,857	3,707,156
Fee, commission and other income, net	733,040	599,442	445,524	203,330	434,306	(128,602)	2,287,040
Operating income	2,154,971	1,812,769	687,864	507,137	521,200	310,255	5,994,196
General and administrative expenses							(2,623,103)
Operating profit before impairment							3,371,093
Allowances for impairment, net							(1,212,187)
Profit before tax							2,158,906
Tax expense							(22,764)
Profit for the year							2,136,142
Attributable to:							
Owners of the Parent							2,065,194
Non-controlling interests							70,948
							2,136,142
Segment Assets	63,866,899	17,065,798	38,357,176	12,384,411	7,039,901	20,716,798	159,430,983
Segment Liabilities	56,767,407	27,176,632	23,366,356	10,312,515	5,170,031	14,395,112	137,188,053

39 Segmental information (continued)

Geographical information

The Group operates in four principal geographical areas – UAE. (country of domicile), other Middle East Countries (Kuwait, Bahrain, Egypt and Qatar), O.E.C.D. (USA and UK) and other countries (India and Hong Kong).

The Group's revenue from continuing operations from external customers and information about its non-current assets by geographical location are detailed below:

	Operating income from external customers *		Non-current assets **	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
UAE	**4,188,913**	4,972,018	**2,093,416**	1,977,362
Other Middle East countries	**687,634**	724,402	**79,546**	87,363
O.E.C.D.	**186,150**	218,766	**29,582**	34,792
Other countries	**85,567**	79,010	**8,382**	4,944
	5,148,264	5,994,196	**2,210,926**	2,104,461

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

** Non-current assets include property & equipment, intangible assets and investment properties. The additions to non-current assets during the year relate to property & equipment and intangible assets which has been disclosed in note 12 and 13. Refer to note 12 and 13 for depreciation and amortisation.

Revenue from major products and services

Revenue from major products and services are disclosed in Notes 24, 25, 28, 29 and 30 in the consolidated financial statements.

Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2020 and 2019.

40 Classification of financial assets and liabilities

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2020:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	17,941,941	17,941,941
Deposits and balances due from banks	-	-	28,239,030	28,239,030
Other financial assets measured at fair value	1,453,367	6,985,736	-	8,439,103
Other financial assets measured at amortised cost	-	-	11,000,654	11,000,654
Loans and advances measured at amortised cost	-	-	57,286,411	57,286,411
Islamic financing and investment products measured at amortised cost	-	-	14,246,343	14,246,343
Acceptances	-	-	12,767,461	12,767,461
Other assets	1,512,413	-	1,629,844	3,142,257
Total	2,965,780	6,985,736	143,111,684	153,063,200
Financial liabilities:				
Deposits and balances due to banks	-	-	14,844,380	14,844,380
Repurchase agreements with banks	-	-	2,289,723	2,289,723
Customers' deposits	-	-	76,375,973	76,375,973
Islamic customers' deposits	-	-	11,884,566	11,884,566
Acceptances	-	-	12,767,461	12,767,461
Other liabilities	1,292,784	-	3,286,327	4,579,111
Medium-term loans	-	-	9,616,042	9,616,042
Total	1,292,784	-	131,064,472	132,357,256

40 Classification of financial assets and liabilities (continued)

(b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2019:

	FVTPL AED'000	**FVTOCI AED'000**	**Amortised cost AED'000**	**Total AED'000**
Financial assets:				
Cash and balances with central banks	-	-	20,939,700	20,939,700
Deposits and balances due from banks	-	-	26,565,848	26,565,848
Other financial assets measured at fair value	1,490,840	3,031,326	-	4,522,166
Other financial assets measured at amortised cost	-	-	10,875,153	10,875,153
Loans and advances measured at amortised cost	-	-	61,710,277	61,710,277
Islamic financing and investment products measured at amortised cost	-	-	14,456,757	14,456,757
Acceptances	-	-	12,903,083	12,903,083
Other assets	667,381	-	1,740,054	2,407,435
Total	2,158,221	3,031,326	149,190,872	154,380,419

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial liabilities:				
Deposits and balances due to banks	-	-	11,184,496	11,184,496
Repurchase agreements with banks	-	-	1,088,537	1,088,537
Customers' deposits	-	-	76,439,572	76,439,572
Islamic customers' deposits	-	-	14,529,261	14,529,261
Acceptances	-	-	12,903,083	12,903,083
Other liabilities	607,014	-	2,962,116	3,569,130
Medium-term loans	-	-	11,838,757	11,838,757
Total	607,014	-	130,945,822	131,552,836

41 Derivatives

In the ordinary course of business, the Group utilises the following derivative financial instruments for both trading and hedging purposes. These derivative financial instruments are based on observable market inputs i.e. Level 2.

(a) Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.

(b) Credit Default Swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a debt instrument goes into default and fails to pay.

(c) Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are marked to market daily.

(d) Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.

(e) Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

The Group measures a net Credit Value Adjustment (CVA) on outstanding OTC derivative contracts to account for market value of 'credit risk' due to any failure to perform on contractual agreements by a counterparty. CVA is computed on all OTC derivatives asset classes including Foreign Exchange, Interest Rates, Equities and Commodities etc. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit losses in the derivatives portfolios. CVA is a function of our expected exposure to counterparts, probability of default and recovery rates. Internally the Group manages and monitor the exposure to this risk by defining controls and limits around a 'peak future exposure' (PFE) measure and in many cases by collateralizing facilities under Credit Support Annex (CSA). As at 31 December 2020, net incremental CVA charge to statement of profit or loss amounts to AED 16 million (31 December 2019: AED 24 million).

41 Derivatives (continued)

31 December 2020

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to maturity Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 Years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	627,625	472,924	75,256,538	55,598,286	7,754,686	3,448,122	8,378,338	77,107
Foreign exchange options (bought)	-	84	8,520	8,520	-	-	-	-
Foreign exchange options (sold)	84	-	8,520	8,520	-	-	-	-
Interest rate swaps	775,662	774,128	34,160,162	551,080	788,143	764,660	20,292,523	11,763,756
Credit default swaps	-	240	55,095	-	-	-	55,095	-
Futures contracts purchased (Customer)	538	-	67,125	43,371	20,259	3,495	-	-
Futures contracts sold (Customer)	-	2,710	372,404	362,184	10,220	-	-	-
Futures contracts purchased (Bank)	2,710	6	380,692	368,452	11,598	643	-	-
Futures contracts sold (Bank)	35	538	154,865	85,194	20,259	49,412	-	-
Total	1,406,654	1,250,630	110,463,921	57,025,607	8,605,165	4,266,332	28,725,956	11,840,863
Derivatives held as fair value and cash flow hedge:								
Cross-currency swap	105,759	42,154	2,123,671	-	-	-	1,818,038	305,633
Total	1,512,413	1,292,784	112,587,592	57,025,607	8,605,165	4,266,332	30,543,994	12,146,496

41 Derivatives (continued)

31 December 2019

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to maturity Up to 3 months AED'000	3 – 6 months AED'000	6 – 12 months AED'000	1 – 5 years AED'000	Over 5 Years AED'000
Derivatives held for trading:								
Forward foreign exchange contract	182,794	137,240	61,442,635	41,853,980	4,846,893	2,757,137	11,910,160	74,465
Foreign exchange options (bought)	-	6,311	3,879,499	649,849	1,258,064	1,971,586	-	-
Foreign exchange options (sold)	12,350	-	3,829,830	649,849	1,208,395	1,971,586	-	-
Interest rate swaps	440,909	438,099	20,342,094	135,216	118,411	1,212,923	13,669,504	5,206,040
Credit default swaps	148	-	11,723	-	-	-	11,723	-
Futures contracts purchased (Customer)	703	-	38,731	29,354	9,377	-	-	-
Futures contracts sold (Customer)	-	1,277	70,805	66,461	4,344	-	-	-
Futures contracts sold (Bank)	1,277	-	70,805	66,461	4,344	-	-	-
Futures contracts purchased (Bank)	-	703	38,731	29,354	9,377	-	-	-
Total	638,181	583,630	89,724,853	43,480,524	7,459,205	7,913,232	25,591,387	5,280,505
Derivatives held as fair value and cash flow hedge:								
Cross-currency swap	29,200	23,384	1,605,773	-	-	-	943,371	662,402
Total	667,381	607,014	91,330,626	43,480,524	7,459,205	7,913,232	26,534,758	5,942,907

42 Capital management

The Group's objectives when managing capital, which is a broader concept than the 'equity' on the face of the consolidated statement of financial position, are:

- To comply with the capital requirements set by the Basel Committee on Banking Supervision (BCBS) and the regulators of the banking markets where the entities within the Group operate;

- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base and capital buffer to support the development of its business and provide adequate cushion to withstand a variety of stress scenarios and/or unforeseen risks.

Regulatory capital

On June 26, 2012, the BCBS issued the Basel III rules on the information banks must publicly disclose when detailing the composition of their capital, which set out a framework to ensure that the components of banks capital bases are publicly disclosed in standardised formats across and within jurisdictions for banks subject to Basel III.

Basel III is designed to materially improve the quality of regulatory capital and introduces a new minimum common equity capital requirement. Basel III also raises the minimum capital requirements and introduces capital conservation and countercyclical buffers to induce banks to hold capital in excess of regulatory minimums.

The Central Bank of the UAE sets and monitors capital requirements for the Group as a whole. The Parent company and overseas banking operations are directly supervised by their local regulators. In February 2017, the Central Bank of the UAE published enhanced regulatory capital rules vide notifications 52 and 60/2017 which implemented Basel III in the UAE.

The Group's regulatory capital is analysed into two tiers, in line with the Central Bank regulation:

- Tier 1 capital, split into Common equity tier 1 (CET 1) which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, accumulated other comprehensive income and Additional tier 1 (AT 1) comprising of instrument issued by banks which are eligible for inclusion on AT 1 and are not included in CET 1.

- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets), qualifying subordinated liabilities not part of CET 1.

42 Capital management (continued)

Regulatory capital (continued)

- Regulatory adjustment is applied in CET 1, AT 1 and Tier 2 capital consisting mainly of goodwill and other intangibles, deferred tax assets, cash flow hedge reserve. Additionally, threshold deduction is applied in case of exceeding the threshold limit.

As per the Central bank regulation for Basel III, the capital requirement as at 31 December 2020 is 13% inclusive of capital conservation buffer.

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

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

The Group's assets are risk-weighted as to their relative credit, market, and operational risk. Credit risk includes both on and off-balance sheet risks. Market risk is defined as the risk of losses in on and off-balance sheet positions arising from movements in market prices and includes interest rate risk, foreign exchange risk, equity exposure risk, commodity risk, and options risk. Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events.

42 Capital management (continued)

Regulatory capital (continued)

As part of its Capital Management, the Bank conducts an Internal Capital Adequacy Assessment Process (ICAAP) to demonstrate to the Central Bank of the UAE that the Bank has implemented methods and procedures to ensure adequate capital resources and action plans in stress conditions, with due attention to all material risks. The Central Bank of the UAE conducts a Supervisory Review and Evaluation Process (SREP) to assess the soundness of the Bank's ICAAP.

The Group's policy is to maintain a strong capital base so as to maintain market confidence and to sustain future development of the business. The impact of the level of capital on shareholders' return is also recognised and the Group recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position. Historically the Group has followed a conservative dividend policy to increase capital from internal resources to meet future growth. To further strengthen the capital base and to ensure effective management of capital, the Group has issued medium-term floating rates notes.

The Group and its individually regulated operations have complied with all externally imposed capital requirements throughout the year.

There have been no material changes in the Group's management of capital during the year.

42 Capital management (continued)

Regulatory capital (continued)

(a) The Group's regulatory capital positions as at 31 December 2020 and 31 December 2019 were as follows:

	2020	2019
	AED'000	AED'000
Common equity Tier 1 capital		
Issued and paid up capital	**1,775,308**	1,775,308
Statutory and legal reserve	**912,099**	907,714
General reserve	**312,000**	312,000
Currency translation reserve	**(98,332)**	(88,720)
Investments revaluation reserve	**(358,088)**	(273,595)
Retained earnings	**16,941,770**	18,185,459
Non-controlling interests – eligible amount	**-**	4,748
Less: Regulatory deductions	**(204,050)**	(48,631)
Total (A)	**19,280,707**	20,774,283
Additional Tier 1 capital	**-**	-
Total Tier 1 capital (B)	**19,280,707**	20,774,283
Tier 2 capital		
General provision	**1,471,323**	1,549,604
Total	**1,471,323**	1,549,604
Total capital base (C)	**20,752,030**	22,323,887
Credit risk	**117,705,874**	123,968,330
Market risk	**2,219,454**	2,770,836
Operational risk	**9,724,272**	10,424,335
Total risk-weighted assets (D)	**129,649,600**	137,163,501
Capital adequacy ratio [(C)/(D) x 100]	**16.01%**	16.28%

42 Capital management (continued)

Regulatory capital (continued)

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based on the inherent risk it carries. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation, by Finance and Risk Groups, and is subject to review by the Bank's Assets and Liabilities Committee (ALCO) as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

43 Risk management

The Risk Management Group ("RMG") is responsible for identifying, analysing, measuring and managing risk to ensure that the Group (i) remains within it's risk appetite; and (ii) generates sustainable risk-adjusted returns as mandated by the shareholders.

The Group is exposed to the following material risks:

- Credit risk
- Market risk
- Operational risk
- Liquidity risk

The Group's ability to consistently foster a robust risk management culture and framework is an important factor in its financial strength and stability.

Risk Management Framework

The Board of Directors (the "Board") through the Board Risk Committee ("BRC") has overall responsibility for establishment and oversight of the Group's risk management framework. They are assisted by various management committees including the Executive Management Committee ("ExCo"), Enterprise Risk Committee ("ERC"), Assets and Liabilities Committee ("ALCO"), Regulatory Compliance Committee ("RCC") and Information Security Committee ("ISC") and Business Continuity Management Steering Committee ("BCMSC") etc. These committees are appointed by the Board and assist the Board in management of risk in the Group including review and approval of all risk management policies.

While the Board carries ultimate responsibility for overall risk management, the ERC assists the Board/Board Risk Committee in discharging these responsibilities including identifying, analyzing, assessing, treating, monitoring and communicating the risks associated with all activities, functions and processes within the Group including recommending the Group's overall Risk Appetite.

The ERC has overall responsibility for oversight of risk management framework and risk appetite of the Group. The Enterprise Risk Committee is also responsible for the approval of credit policies and procedures of the Group and to ensure adherence to the approved policies and close monitoring of different risks within the Group. The Enterprise Risk Committee also approves policy exceptions, establishes and monitors various concentration limits (such as limits for country, industry sector etc.) as part of the risk appetite and reviews credit portfolio to manage asset quality.

43 Risk management (continued)

Risk Management Framework (continued)

The Risk Management Group ("RMG") is independent of business groups and is led by a Chief Risk Officer ("CRO") with responsibility for deploying an enterprise-wide risk management and oversight of all material risks with the Group. The RMG is primarily responsible for defining the framework for management of all material risks within the Group.

The Internal Audit Group ("IAG") acts as the third line of defence function within the Group, independent from both the business units ("first line of defence") and Group Operational risk team ("second line of defence"). IAG provides independent assurance to stakeholders and senior management on compliance with all risk policies and procedures in the Group and the effectiveness of the risk management processes. This is undertaken through periodic reviews of all risk-taking units within the Bank, in addition to Risk Management.

Capital Management

The Group's capital management approach is designed to ensure that regulatory requirements are met at all times and that the Group's operating activities including its branches and subsidiaries are capitalized in line with the Group's risk appetite, target ratios and in accordance with local regulatory requirements.

The Bank's capital management approach further aims to facilitate the allocation and use of capital, such that it generates a return that appropriately compensates shareholders for the risks incurred. Capital adequacy is actively managed and forms a key component of the Group's budget and forecasting process. The capital plan is tested under a range of stress scenarios as part of the Group's annual Internal Capital Adequacy Assessment Process ICAAP. The capital management approach is set and governed primarily by the ALCO.

43 Risk management (continued)

Risk Appetite & Stress Testing

The key to the Group's long-term sustainable growth and profitability lies in ensuring that there is a strong link between its risk appetite and strategy.

Risk Appetite for the Group is set and approved by the Group's Board. The Group's risk appetite is disseminated down to business groups in alignment with business strategies for these groups.

Stress testing is a key management tool within the Group used to evaluate the sensitivity of current and forward risk profiles to shocks of varying nature and severity. Stress testing within the Group is governed by the Group's stress testing policy which sets out the approaches for stress testing and associated roles and responsibilities. The primary governance committee overseeing risk appetite and stress testing is the ERC.

Internal Capital Adequacy Assessment Process (ICAAP)

The purpose of the ICAAP is to inform the Board of the ongoing assessment of the bank's risks, how the bank intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

This entails the computation of the bank's aggregated Economic Capital and the monitoring of the Group's capital adequacy under a variety of stressed scenarios to assess and report the impact upon the Group's capital buffer (measured as available capital less required risk capital) and recommending actions, as warranted. The risk assessment is approved by the Board as part of the ICAAP submission.

Credit risk management

Credit risk is the risk of suffering financial loss, should any of the Group's customers fail to fulfil their contractual obligations to the Group. Credit risk arises mainly from loan and advances, loan commitments arising from such lending activities, trade finance and treasury activities but can also arise from financial guarantees, letter of credit, endorsements and acceptances. The Group is also exposed to other credit risks arising from investments in debts instruments, derivatives as well as settlement balances with market counterparties.

The Chief Credit Officer ("CCO") of the Group is responsible for overseeing all aspects of credit risk management supported by a team of experienced and trained credit risk managers. The CCO and credit risk managers have delegated authority within the risk management framework to approve credit transactions and manage credit risk on an ongoing basis.

Credit risk is the single largest risk from the Group's business of extending Loans and Advances (including loan commitments, LCs and LGs) and carrying out investment in securities and debts; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised under the CCO function with regular governance and monitoring exercised by the BRC and ERC.

43 Risk management (continued)

Credit risk management (continued)

Specifically, BRC reviews and approves credit proposals that are beyond lending authorities delegated to management by the Board of Directors. In addition, BRC monitors key elements of the Bank's credit risk profile relative to the Bank's risk appetite. The BRC is supported by ERC in detailed review and monitoring of credit portfolio, including exposure concentrations.

Finally, an Early Alert Committee ("EAC") is in place to review and proactively identify potential problematic exposures within CIBG and IBG business groups and determine appropriate strategies. The EAC, along with the IFRS 9 Forum (a forum in place to oversee all aspects of Mashreq's IFRS 9 framework), plays an important role in ensuring that credit fundamentals are linked to determination of Significant Increase in Credit Risk (SICR) and staging for IFRS 9 purposes.

Loans and advances (including loan commitments, LCs and LGs)

The estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Group measures credit risk using the concept of Expected Loss which requires the following measures

-Probability of Default (PD)
-Loss Given Default (LGD)
-Exposure at Default (EAD)

Under IFRS 9 expected loss is replaced by Expected Credit Loss (ECL), which is based on macro adjusted PD, LGD & EAD measures. Additionally, it also captures deterioration and lifetime likelihood of defaults.

Credit risk grading

The Group use specific internal rating models tailored to various industry segments/counterparty. Borrower and loan specific information collected at the time of application (such as disposable income, and level of collateral for retail exposures; and turnover and industry type for wholesale exposures) is fed into this rating model. This is supplemented with external data input into the model. The credit grades are calibrated such that risk of default increases exponentially at each higher risk grade. For example, this means that the difference in the PD between a 6 and 8 rating grade is lower than the difference in the PD between a 18 and 20 rating grade.

The Risk Rating system for performing assets ranges from 1 to 25, each grade being associated with a PD. Non-performing borrowers are rated 50, 60, 70 and 80, corresponding to NAUR (Non-accrual Under Restructuring), Substandard, Doubtful, Loss classifications and 99 for Write-off.

43 Risk management (continued)

Credit risk management (continued)

Credit risk grading (continued)

Borrower risk ratings are mapped into the following 5 Grades:

Grade	Risk Rating	Definition
Grade 1	1-12	Low Risk
Grade 2	13-17	Satisfactory Risk
Grade 3	18-20	High Risk
Grade 4	21-25	Watch List
Grade 5	50,60,70,80	Impaired

The Group uses a bespoke Financial Institutions ("FI") internal rating model to support the lending process. The FI Rating model consists of two major components: (i) the Financial – Macro Profile Analysis Assessment; and (ii) Business Analysis Assessment. Apart from the Financial and Business analysis factors, the model incorporates sovereign caps and consideration of group and government support, where applicable.

The FI rating model is utilized to rate all FI borrowers including those that are not externally rated. This rating is used to compute ECL staging for FI borrowers.

Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Group.
- If a Significant Increase in Credit Risk ('SICR') since initial recognition is identified, then the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Amongst other factors, the identification of SICR is measured via a change in one year probability of default between the date of inception of facility and the date of IFRS 9 ECL run. Other factors include restructuring and account irregularities.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'.
- Financial assets in Stage 1 have their ECL measured at an amount equal to lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stage 2 have their ECL measured based on expected credit losses on a lifetime basis.
- Financial assets in Stage 3 are measured at an amount equal to lifetime expected credit losses or specific provision.
- A pervasive concept in measuring the ECL in accordance with IFRS 9 is that it should consider forward-looking information.

43 Risk management (continued)

Expected credit loss measurement (continued)

Significant increase in credit risk (SICR)

The Group considers a financial asset to have experienced a SICR when a significant change in one year probability of default occurs between the origination date of a specific facility and the IFRS 9 ECL run date. In addition, a range of qualitative criteria's are also considered.

Quantitative criteria

Corporate loans:
For corporate loans, if the borrower experiences a significant increase in probability of default which can be triggered by the following quantitative factors:

- Operating performance
- Operating efficiency
- Debt service/ covenant breaches
- Distressed restructure
- Account performance / irregularities
- Liquidity assessment
- Capital structure

Retail:
For Retail portfolio, if the borrowers meet one or more of the following criteria:

- Adverse findings for an account/ borrower as per credit bureau data;
- Loan rescheduling before 30 Days Past Due (DPD);
- Accounts overdue between 30 and 90 days.

Treasury:
- Significant increase in probability of default of the underlying treasury instrument;
- Significant change in the investment's expected performance & behavior of borrower (collateral value, payment holiday, payment to income ratio etc.).

43 Risk management (continued)

Credit risk management (continued)

Qualitative criteria:

Corporate Loans

For corporate loans, the following is also considered in determining a significant increase in probability of default:

- Net worth erosion
- Fraudulent activity
- Significant operations disruption
- Departure of key members of management
- Industry outlook
- Income stability Unavailable/inadequate financial information/financial statements
- Qualified report by external auditors
- Pending significant litigation
- Increase in operational risk
- Continued delay and non-cooperation by the borrower in providing key relevant documentation

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2020 and 31 December 2019.

Backstop:

A borrower that is more than 30 days past due on its contractual obligations is presumed to have a significantly increased credit risk as a backstop unless this presumption can be reasonably rebutted on the basis of supportable forward-looking information. The borrower is also flagged in the system and is therefore subject to closer monitoring.

Definition of default and credit-impaired assets

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

Quantitative criteria

The borrower is more than 90 days past due on its contractual payments.

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets (continued)

Qualitative criteria:

According to the Basel definition, default is considered to have occurred with regard to particular obligors when either one of the following events have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligation to the Group in full without recourse by the Bank to actions like realizing security (if held).
- The Bank puts the credit obligation on a non-accrued status.
- The Bank makes a charge-off or account-specific provision resulting from a perceived decline in credit quality subsequent to the Bank taking on the exposure.
- The Bank sells the credit obligation at a material credit-related economic loss.
- The Bank consents to a distressed restructuring of the credit obligation where this is likely to result in a diminished financial obligation caused by the material forgiveness or postponement of principal, interest and other fees.
- The Bank has filed for the obligor's bankruptcy or similar order in respect of the obligor's credit obligation to the Banking Group.
- The obligor is past due more than 90 days on any material credit obligation to the Banking Group.

The criteria above has been applied to all financial instruments held by the Group and is consistent with the definition of default used for internal credit risk management purposes. The default definition has been applied consistently to model the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD) throughout the Group's expected loss calculations.

An instrument is considered to no longer be in default (i.e. to have cured) when it no longer meets any of the default criteria for a consecutive period of twelve months. This period of twelve months has been determined based on an analysis which considers the likelihood of a financial instrument returning to default status after cure using different cure definitions.

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

The Expected Credit Loss (ECL) is measured on either a 12-month (12M) or lifetime basis depending on whether a significant increase in credit risk has occurred since the initial recognition of a specific facility or whether an asset is considered credit-impaired. The Group has adopted a forward exposure method for computing the ECL for each facility. The bank has opted for a monthly granular computation of PD, EAD and LGD.

- The PD represents the likelihood of a borrower defaulting on its financial obligation (as per 'Definition of default and credit-impaired' above), either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation.
- EAD is based on the amounts the Group expected to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining lifetime (Lifetime EAD).
- LGD represents the Group's expectation of the extent of loss on a defaulted exposure. LGD varies by type of counterparty, type and seniority of claim and availability of collateral or other credit support. LGD is expressed as a percentage loss per unit of exposure at the time of default (EAD). LGD is calculated on a 12-month or lifetime basis, where 12-month LGD is the percentage of loss expected to be made if the default occurs in the next 12 months and lifetime LGD is the percentage of loss expected to be made if the default occurs over the remaining expected lifetime of the loan.

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e. the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the effective interest rate or an approximation thereof.

Lifetime expected credit losses are expected credit loss resulting from all probable default events over the expected lifetime of the financial instrument. Expected credit losses are the probability-weighted average of credit losses and the weighing factor is the Probability of Default (PD) for a lifetime.

43 Risk management (continued)

Credit risk management (continued)

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

During economically challenging periods, the Group may choose to increase the scenario weightage of the pessimistic scenario under guidance from respective regulatory authorities in order to maintain higher level of ECL provisions & lower the scenario weightage of pessimistic scenario once a favourable trend is noticed in the macro economic climate. Such a change was effectuated in 2020 to reflect the impact of COVID-19, whereas the scenario weightage of the pessimistic scenario was increased to 80%. Further details are included on COVID-19 impact on measurement of ECL section.

The Group has implemented a risk rating model since 2005 which has enabled the Bank to collect historical risk ratings since 2005 and build point in time credit transition matrices for the last 14 years. This has enabled the bank to derive a credit index using the historical transition matrices. The credit index correlates with specific macro-economic factors, which have been statistically established through regression modelling.

These models were used to forecast future credit transitions using Moody's research macro-economic forecast under the IFRS 9 scenarios i.e. upwards and downwards.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

- For amortising products and bullet repayments loans, this is based on the contractual repayments owed by the borrower over a 12 month period or lifetime basis.
- For revolving committed products, the exposure at default is predicted by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining committed limit by the time of default.
- For contingent products like LC & LG, the exposure at default is predicted using a Credit conversion factor inline with the Basel regulatory guidelines.

The Group has adopted a workout methodology for LGD computation. For the Corporate segment, the Bank has developed the LGD framework using more than 21 years of data.

The LGDs are determined based on the factors which impact recoveries made following default. These vary by product type.

- For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market/book values due to forced sales, time to repossession and recovery costs observed.
- For unsecured products, LGDs are typically set by different borrower segments (e.g. Corporates, Financial Institutions etc.) in order to reflect differences in asset structures, collection strategies and historical recovery experience.

43 Risk management (continued)

Credit risk management (continued)

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

The Group has revised the Wholesale LGD framework during 2020 in order to reflect recent recovery experience and additional admissible security types. Forward-looking economic information is also included in determining the 12-month and lifetime PD.

Forward looking information incorporated in the ECL models

The assessment of SICR and the calculation of ECL both incorporate forward-looking information. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit losses for each portfolio.

These economic variables and their associated impact on the ECL parameters vary by geographies and borrower types. Impact of these economic variables on historical default rates is determined by performing statistical regression analysis to understand the relationship between these variables. Once the relationship has been established, the bank utilizes macroeconomic data for these variables from Moody's (Economy.com) and other recognized external sources (e.g. IMF) to obtain historical information and forecasts under base, optimistic and pessimistic scenarios. Expert judgement is applied in the process where the economic relationship between variables is weak or the forecast is deemed imprudent.

For unbiased and probability-weighted ECL calculation, the Group uses probabilities of 60%, 20% and 20% for baseline, optimistic and pessimistic macro-economic scenario respectively based on expert judgement in order to represent majority weight to base and an even weight to the rest. Refer to COVID-19 impact on measurement of ECL section for sensitivity analysis on probability-weighted ECL calculation.

Following are the macroeconomic variables used in the IFRS 9 PD models across different geographies:

1. Government Debt to GDP
2. Broad Money
3. Budget Expenditure to GDP
4. Oil Price
5. GDP
6. Industrial Production

43 Risk management (continued)

Credit risk management (continued)

Sensitivity analysis

The Group has calculated ECL for wholesale borrowers at an individual financial instrument level and portfolio level for retail borrowers.

The most significant assumptions affecting the ECL allowance in respect of retail and wholesale credit portfolios are as follows:

- Government debt to GDP (% Change)
- Levels of board money (% Change)
- Oil price (% Change)

The Group has performed a sensitivity analysis on how ECL on the credit portfolio will change if the key assumptions used to calculate ECL change by a certain percentage. The impact on ECL due to changes in the forecasted probabilities of default as a result of variations in Total Debt to GDP and Broad Money by +10% / -10% in each scenario would result in an ECL reduction by AED 68 million and an ECL increase AED 74 million respectively. These variations are applied simultaneously to each probability weighted scenarios used to compute the expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

The following table contains an analysis of the credit risk exposure of financial assets which are subject to ECL. The gross carrying amount of financial assets below also represents the Group's maximum exposure to credit risk on these assets:

	2020				2019			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Cash and balances with Central Bank	**17,941,941**	**-**	**-**	**17,941,941**	20,939,700	-	-	20,939,700
Loss allowance	**-**	**-**	**-**	**-**	-	-	-	-
Carrying amount	**17,941,941**	**-**	**-**	**17,941,941**	20,939,700	-	-	20,939,700
Deposits and balances due from banks								
Investment-grade	**7,217,923**	**117,961**	**-**	**7,335,884**	6,722,691	1,707	-	6,724,398
BB+ & below	**5,598,832**	**2,926,065**	**-**	**8,524,897**	5,625,956	130,051	-	5,756,007
Unrated	**9,978,354**	**2,480,994**	**85,023**	**12,544,371**	12,999,473	1,156,243	38,329	14,194,045
	22,795,109	**5,525,020**	**85,023**	**28,405,152**	25,348,120	1,288,001	38,329	26,674,450
Loss allowance	**(69,256)**	**(41,409)**	**(55,457)**	**(166,122)**	(89,419)	(5,963)	(13,220)	(108,602)
Carrying amount	**22,725,853**	**5,483,611**	**29,566**	**28,239,030**	25,258,701	1,282,038	25,109	26,565,848

43 Risk management (continued)

Credit risk management (continued)

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

	2020			
Loans and advances -At amortised cost	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Grading 1	**9,232,853**	**237,741**	**-**	**9,470,594**
Grading 2	**39,652,752**	**1,218,419**	**-**	**40,871,171**
Grading 3	**4,788,340**	**2,156,715**	**-**	**6,945,055**
Grading 4	**133,659**	**1,693,075**	**-**	**1,826,734**
Grading 5	**-**	**-**	**3,576,483**	**3,576,483**
	53,807,604	**5,305,950**	**3,576,483**	**62,690,037**
Loss allowance	**(556,764)**	**(2,274,612)**	**(2,572,250)**	**(5,403,626)**
Carrying amount	**53,250,840**	**3,031,338**	**1,004,233**	**57,286,411**
Islamic financing and investment products measured at amortised cost				
Grading 1	**2,518,566**	**3,073**	**-**	**2,521,639**
Grading 2	**8,111,630**	**104,287**	**-**	**8,215,917**
Grading 3	**2,646,357**	**86,713**	**-**	**2,733,070**
Grading 4	**24,766**	**97,351**	**-**	**122,117**
Grading 5	**-**	**-**	**1,060,930**	**1,060,930**
	13,301,319	**291,424**	**1,060,930**	**14,653,673**
Loss allowance	**(58,112)**	**(12,530)**	**(336,688)**	**(407,330)**
Carrying amount	**13,243,207**	**278,894**	**724,242**	**14,246,343**

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

	2019			
Loans and advances -At amortised cost	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Grading 1	12,683,668	209,016	-	12,892,684
Grading 2	38,493,453	840,496	-	39,333,949
Grading 3	4,465,886	2,180,741	-	6,646,627
Grading 4	1,618,493	1,911,714	-	3,530,207
Grading 5	-	-	3,151,181	3,151,181
	57,261,500	5,141,967	3,151,181	65,554,648
Loss allowance	(435,818)	(1,498,488)	(1,910,065)	(3,844,371)
Carrying amount	56,825,682	3,643,479	1,241,116	61,710,277
Islamic financing and investment products measured at amortised cost				
Grading 1	1,743,753	5,496	-	1,749,249
Grading 2	9,114,779	72,591	-	9,187,370
Grading 3	2,247,020	319,674	-	2,566,694
Grading 4	613,183	134,411	-	747,594
Grading 5	-	-	334,440	334,440
	13,718,735	532,172	334,440	14,585,347
Loss allowance	(39,795)	(6,151)	(82,644)	(128,590)
Carrying amount	13,678,940	526,021	251,796	14,456,757

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

	2020			
	Stage 1	**Stage 2**	**Stage 3**	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other financial assets measured at amortised cost				
Investment-grade	**7,483,893**	**-**	**-**	**7,483,893**
BB+ & below	**3,170,045**	**-**	**-**	**3,170,045**
Unrated	**365,740**	**-**	**2,205**	**367,945**
	11,019,678	**-**	**2,205**	**11,021,883**
Loss allowance	**(19,024)**	**-**	**(2,205)**	**(21,229)**
Carrying amount	**11,000,654**	**-**	**-**	**11,000,654**
Other financial assets measured at FVTOCI				
Investment-grade	**6,266,974**	**-**	**-**	**6,266,974**
BB+ & below	**205,550**	**-**	**-**	**205,550**
Unrated	**43**	**-**	**-**	**43**
	6,472,567	**-**	**-**	**6,472,567**
Loss allowance	**(1,601)**	**-**	**-**	**(1,601)**
Carrying amount	**6,470,966**	**-**	**-**	**6,470,966**

43 Risk management (continued)

Credit risk management (continued)

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

	2019			
Credit risk exposures relating to on-balance sheet assets are as follows:	**Stage 1** **12-month** **AED'000**	**Stage 2** **Lifetime** **AED'000**	**Stage 3** **Lifetime** **AED'000**	**Total** **AED'000**
Other financial assets measured at amortised cost				
Investment-grade	8,052,760	-	-	8,052,760
BB+ & below	1,583,518	1,009,106	-	2,592,624
Unrated	253,929	-	2,205	256,134
	9,890,207	1,009,106	2,205	10,901,518
Loss allowance	(19,047)	(5,113)	(2,205)	(26,365)
Carrying amount	9,871,160	1,003,993	-	10,875,153
Other financial assets measured at FVTOCI				
Investment-grade	2,197,921	-	-	2,197,921
BB+ & below	267,224	-	-	267,224
Unrated	1,980	-	-	1,980
	2,467,125	-	-	2,467,125
Loss allowance	(872)	-	-	(872)
Carrying amount	2,466,253	-	-	2,466,253

43 Risk management (continued)

Credit risk management (continued)

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

	2020				2019			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other assets	**-**	**585,565**	**428,432**	**1,013,997**	-	597,644	459,230	1,056,874
Loss allowance	**-**	**(17,789)**	**(413,188)**	**(430,977)**	-	(20,769)	(437,100)	(457,869)
Carrying amount	**-**	**567,776**	**15,244**	**583,020**	-	576,875	22,130	599,005
Acceptances	**12,680,894**	**86,567**	**-**	**12,767,461**	12,749,871	153,212	-	12,903,083
Loss allowance	**(25,277)**	**(1,021)**	**-**	**(26,298)**	(15,236)	(1,310)	-	(16,546)

43 Risk management (continued)

Credit risk management (continued)

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

	2020				2019			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
Credit risk exposures relating to off-balance sheet items are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Letters of credit	**7,772,256**	**1,396,332**	**67,013**	**9,235,601**	7,634,816	210,730	-	7,845,546
Guarantees	**35,097,006**	**2,858,541**	**2,314,700**	**40,270,247**	40,882,679	3,039,530	-	43,922,209
Undrawn credit commitments -Irrevocable	**6,244,126**	**3,556**	**-**	**6,247,682**	6,963,757	-	-	6,963,757
	49,113,388	**4,258,429**	**2,381,713**	**55,753,530**	55,481,252	3,250,260	-	58,731,512
Loss allowance	**(66,481)**	**(50,963)**	**(325,000)**	**(442,443)**	(83,863)	(58,376)	-	(142,239)

43 Risk management (continued)

Credit risk management (continued)

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

The table below shows the maximum exposure to credit risk for financial assets that are not subject to impairment.

	2020	2019
	AED'000	AED'000
Trading assets		
- Debt securities	**815,671**	876,295
- Derivatives	**1,406,654**	638,181
Hedging derivatives	**105,759**	29,200
	2,328,084	1,543,676

Risk management in the current economic scenario

Economic fallout from COVID-19 crisis continues to be significant and rapidly evolving at the present time. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. As at 31 December 2020, the Group has utilized AED 753 million of Zero Coupon Facility ("ZCF") under CBUAE Targeted Economic Support Scheme ("TESS") that was launched in April 2020 as a countermeasure to COVID-19. The ZCF is collateralized by certain financial assets measured at amortized cost and financial assets measured at fair value as disclosed in note 7(f). This facility is due for repayment on/before 30 June 2021.

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

COVID-19 impact on measurement of ECL

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

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

In recognition of significant economic uncertainty due to the COVID-19 crisis and the associated challenge with applying IFRS 9 principles and requirements under these circumstances, CBUAE, Dubai Financial Services Authority ("DFSA") and the Financial Services Regulatory Authority (the "FSRA") jointly issued a guidance note to Banks and Finance companies ("Joint Guidance") in UAE on 15 April 2020 relating to estimation of IFRS 9 ECL provisions in context of the COVID-19 crisis. In addition, an addendum to the Joint Guidance was issued on 27 October 2020. The Group has taken into consideration provisions of the Joint Guidance and the addendum in all areas of the IFRS 9 framework and in estimating ECL for the year.

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in macroeconomic environment, risk profile as well as any actual and expected increase in credit risk. This assessment includes detailed review of potential impacts of COVID-19 on economic forecasts, industry sectors as well as individual clients, as relevant, based on the criteria's set out on page 105-107.

The outcome of the review is as follows:

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

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

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

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

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

As at 31 December 2020, the proportion of clients benefitting from deferrals along with their exposures and ECL is as follows:

		Group 1		Group 2	
Sector	Total gross carrying amount	Gross carrying amount	ECL	Gross carrying amount	ECL
		AED (in million)			
Manufacturing	10,219	112	1	1	-
Construction	8,941	1,086	6	62	7
Trade	14,206	1,914	106	36	9
Transport and communication	3,480	357	12	-	-
Services	9,153	2,334	6	56	3
Financial institutions	2,131	85	-	-	-
Personal*	9,721	3,703	65	358	76
Residential mortgage*	6,694	1,993	1	371	5
Government and related enterprises	13,447	131	-	-	-
	77,992	11,715	197	884	100

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

The Bank has deferred payments for customers inline with the economic relief programmes announced in the countries, where the Bank operates. Due to the payment deferrals, the contractual cashflows from these credit exposures (gross carrying amount of AED 12.6 billion) have been modified and in accordance with IFRS 9 requirements the Group has recognized a modification loss of AED 187 million, which is included as part of the ECL.

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

The summary of customers benefiting from deferrals is as follows:

Stage	Group	Number of clients deferred	Payment deferrals	Exposure	Impairment allowance
			AED (in million)		
	Group 1	**29,594**	**2,291**	**10,157**	**82**
Stage 1	**Group 2**	**7**	**148**	**148**	**9**
		29,601	**2,439**	**10,305**	**91**
	Group 1	**3,100**	**254**	**1,558**	**115**
Stage 2	**Group 2**	**3,267**	**121**	**736**	**91**
		6,367	**375**	**2,294**	**206**
	Total	**35,968**	**2,814**	**12,599**	**297**

Reasonableness of ECL estimates under COVID-19 crisis

The Group performs historical analysis to determine key economic variables that impact credit risk across different portfolios. Macroeconomic forecasts for these economic variables are used to estimate risk parameters (PD and LGD) on a forward-looking basis for all borrowers and instruments that are in scope of IFRS 9 ECL framework.

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

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

In accordance with IFRS 9 requirements, the Group estimates these risk parameters under optimistic, base and pessimistic scenarios with representative weights used to measure ECL. In accordance with provisions of the Joint Guidance, the Group updated macroeconomic forecasts[1] in Q3 to estimate ECL. At the same time, the Group reintroduced normalized scenario probability[2] across base, optimistic and pessimistic scenarios. No changes have been introduced in Q4 to either the macroeconomic variables and the scenario weights used in IFRS 9 ECL computations.

From a sensitivity analysis point of view, if the pessimistic scenario was changed by +10% / -10%, ECL would change by +/- AED 131 million. The situation around COVID-19 has resulted in an ECL increase of AED 275 million in 2020, when compared with 2019.

The Group continues to maintain a Judgmental Overlays ("JO") of AED 175 million to reflect potential increase in credit risk attributed to specific high-risk customers. The Group has reviewed early warning signals and ongoing credit performance for high risk customers in arriving at the JO. As a part of this process, the Group has individually looked at the population of wholesale and retail clients that are likely to face financial difficulties. As an outcome of this assessment, the Group has arrived at an additional impairment estimation of AED 175 million. The JO is inherently subject to high levels of estimation therefore the Group continues to regularly review and reassess the level of JO as new information becomes available. As at 31 December 2020, the overlays by categories are as follows:

	Gross carrying amount	**Total overlay**
	AED (in million)	
Loans and advances (including Islamic financing and investment products measured at amortised cost)	**77,992**	**143**
Due from banks	**28,405**	**32**
Other financial assets measured at amortised cost	**11,022**	**-**
Off-balance sheet items	**55,754**	**-**
	173,173	**175**

[1] The Bank utilizes 'UAE Total Debt/GDP', 'UAE Broad Money', 'UAE Budget expenditure as a % of GDP', 'Oil Price', 'World Industrial Production Growth' and 'World GDP growth' as leading macroeconomic variables, amongst others, within the Bank's IFRS 9 Model. Values for these have changed by +109%, +4%, +5.9%, -27%, -17.5% and -67.8% respectively under the adverse scenario for year 1 relative to 31 December 2019.

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

43 Risk management (continued)

Credit risk management (continued)

Collateral and other credit enhancements

Collateral against loans and advances measured at amortised cost is generally held in the form of mortgage interests over property, other registered securities over assets and guarantees. Estimates of fair value are based on the value of the collateral assessed at the time of borrowing. Collateral generally is not held over amounts due from banks, except when securities are held as part of reverse repurchase and securities borrowing activity. The Group maintains substantial real estate and cash collateral, which also forms majority of the collateral base. The benefit of such collateral gets reflected in ECL through the LGD estimates. Allocation of both general and specific collateral is done at a facility level to estimate LGD. Financial instruments such as Repo transactions, embedded leverage note programs, etc. receive no ECL allocation on account of them being fully collateralized after application of relevant haircuts.

The Group closely monitors collateral held for financial assets considered to be credit impaired, as it becomes more likely that the Group will take possession of the collateral to offset potential credit losses. Financial assets that are credit impaired and related collateral held in order to offset potential losses are shown below. The table below details the fair value of the collateral which is updated regularly:

	Loans and advances and Islamic financing and investment products		**Due from banks**	
	31 December 2020 AED'000	31 December 2019 AED'000	**31 December 2020 AED'000**	31 December 2019 AED'000
Against individually impaired:				
Properties	**1,264,662**	951,246	-	-
Equities	**-**	416,632		
Cash	**97,259**	5,002	-	-
Others	**197,403**	196,968	-	-
	1,559,324	1,569,848	-	-
Against not impaired:				
Properties	**24,222,693**	21,144,026	**-**	-
Equities	**715,766**	1,177,590	**-**	-
Cash	**15,490,902**	16,100,708	**1,137,424**	297,832
Others	**6,475,362**	5,190,756	**-**	-
	46,904,723	43,613,080	**1,137,424**	297,832
Total	**48,464,047**	45,182,928	**1,137,424**	297,832

43 Risk management (continued)

Loss allowance

The following tables explain the changes in the loss allowance for the year ended 31 December 2020 and 31 December 2019:

	2020				2019			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Deposits and balances due from banks								
Loss allowance as at 1 January	**89,419**	**5,963**	**13,220**	**108,602**	50,817	5,614	10,318	66,749
Transfers								
Transfer from Stage 1 to Stage 2	**(41,366)**	**41,366**	**-**	**-**	(5,773)	5,773	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	-	-	-	-
Transfer from Stage 2 to Stage 1	**3**	**(3)**	**-**	**-**	-	-	-	-
New financial assets originated	**108,536**	**-**	**-**	**108,536**	92,732	-	-	92,732
Changes in PDs/LGDs/EADs	**(87,336)**	**(5,917)**	**42,237**	**(51,016)**	(48,357)	(5,424)	2,902	(50,879)
Write-offs	**-**	**-**	**-**	**-**	-	-	-	-
Loss allowance as at 31 December	**69,256**	**41,409**	**55,457**	**166,122**	89,419	5,963	13,220	108,602

43 Risk management (continued)

Loss allowance (continued)

	2020				2019			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Loans and advances measured at amortised cost								
Loss allowance as at 1 January	**435,818**	**1,498,488**	**1,910,065**	**3,844,371**	393,497	1,498,365	1,588,721	3,480,583
Transfers								
Transfer from Stage 1 to Stage 2	**(394,706)**	**394,706**	**-**	**-**	(66,593)	66,593	-	-
Transfer from Stage 1 to Stage 3	**(30,878)**	**-**	**30,878**	**-**	(7,188)	-	7,188	-
Transfer from Stage 2 to Stage 1	**12,720**	**(12,720)**	**-**	**-**	10,973	(10,973)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(96,221)**	**96,221**	**-**	-	(45,131)	45,131	-
Transfer from Stage 3 to Stage 2	**-**	**155**	**(155)**	**-**	-	2,154	(2,154)	-
New financial assets originated	**592,872**	**-**	**-**	**592,872**	308,961	-	-	308,961
Changes in PDs/LGDs/EADs	**(59,062)**	**490,204**	**1,671,469**	**2,102,611**	(203,832)	(12,520)	917,550	701,198
Write-offs	**-**	**-**	**(1,136,228)**	**(1,136,228)**	-	-	(646,371)	(646,371)
Loss allowance as at 31 December	**556,764**	**2,274,612**	**2,572,250**	**5,403,626**	435,818	1,498,488	1,910,065	3,844,371

43 Risk management (continued)

Loss allowance (continued)

	2020				2019			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Islamic financing and investment products measured at amortised cost								
Loss allowance as at 1 January	**39,795**	**6,151**	**82,644**	**128,590**	51,293	20,109	67,654	139,056
Transfers				**-**				
Transfer from Stage 1 to Stage 2	**(11,818)**	**11,818**	**-**	**-**	(1,083)	1,083	-	-
Transfer from Stage 1 to Stage 3	**(4,001)**	**-**	**4,001**	**-**	(6,958)	-	6,958	-
Transfer from Stage 2 to Stage 1	**6**	**(6)**	**-**	**-**	99	(99)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(4,179)**	**4,179**	**-**	-	(1,284)	1,284	-
New financial assets originated	**42,916**	**-**	**-**	**42,916**	22,998	-	-	22,998
Changes in PDs/LGDs/EADs	**(8,786)**	**(1,254)**	**307,465**	**297,425**	(26,554)	(13,658)	57,541	17,329
Write-offs	**-**	**-**	**(61,601)**	**(61,601)**	-	-	(50,793)	(50,793)
Loss allowance as at 31 December	**58,112**	**12,530**	**336,688**	**407,330**	39,795	6,151	82,644	128,590

43 Risk management (continued)

Loss allowance (continued)

	2020				2019			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Other financial assets measured at amortised cost								
Loss allowance as at 1 January	**19,047**	**5,113**	**2,205**	**26,365**	56,329	-	-	56,329
Transfers								
Transfer from Stage 1 to Stage 2	**-**	**-**	**-**	**-**	(5,113)	5,113	-	-
New financial assets originated	**12,619**	**-**	**-**	**12,619**	23,996	-	-	23,996
Changes in PDs/LGDs/EADs	**(12,642)**	**(5,113)**	**-**	**(17,755)**	(55,382)	-	-	(55,382)
FX and other movements	**-**	**-**	**-**	**-**	(783)	-	2,205	1,422
Loss allowance as at 31 December	**19,024**	**-**	**2,205**	**21,229**	19,047	5,113	2,205	26,365

43 Risk management (continued)

Loss allowance (continued)

	2020				2019			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Other assets								
Loss allowance as at 1 January	**-**	**20,769**	**437,100**	**457,869**	-	158,838	365,443	524,281
Transfers								
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-	(125,267)	125,267	-
Changes in PDs/LGDs/EADs	**-**	**(2,960)**	**15,839**	**12,879**	-	(12,728)	22,954	10,226
Write-offs	**-**	**(20)**	**(39,751)**	**(39,771)**	-	(74)	(76,564)	(76,638)
Loss allowance as at 31 December	**-**	**17,789**	**413,188**	**430,977**	-	20,769	437,100	457,869

43 Risk management (continued)

Loss allowance (continued)

	2020				2019			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
LCs, LGs, irrevocable undrawn commitments and acceptances								
Loss allowance as at 1 January	**99,099**	**59,686**	**-**	**158,785**	85,937	64,851	-	150,788
Transfers				**-**				
Transfer from Stage 1 to Stage 2	**(6,417)**	**6,417**	**-**	**-**	(4,534)	4,534	-	-
Transfer from Stage 1 to Stage 3	**(97,972)**	**-**	**97,972**	**-**				
Transfer from Stage 2 to Stage 1	**1,845**	**(1,845)**	**-**	**-**	9,018	(9,018)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(6,863)**	**6,863**	**-**	-	(1,675)	1,675	-
Transfer from Stage 3 to Stage 2	**-**	**607**	**(607)**	**-**				
New financial assets originated	**155,606**	**-**	**-**	**155,606**	70,917	-	-	70,917
Changes in PDs/LGDs/EADs	**(60,404)**	**(6,018)**	**220,772**	**154,350**	(62,239)	994	(1,675)	(62,920)
Loss allowance as at 31 December	**91,757**	**51,984**	**325,000**	**468,741**	99,099	59,686	-	158,785

43 Risk management (continued)

Gross carrying amount

The following tables further explains the changes in the gross carrying amount for the year ended 31 December 2020 and 31 December 2019:

	2020				2019			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Cash and balances with central banks								
Gross carrying amount as at 1 January	**20,939,700**	**-**	**-**	**20,939,700**	20,147,826	-	-	20,147,826
New financial assets originated	**9,550,000**	**-**	**-**	**9,550,000**	4,050,000	-	-	4,050,000
Repayments and other movements	**(12,547,759)**	**-**	**-**	**(12,547,759)**	(3,258,126)			(3,258,126)
Gross carrying amount as at 31 December	**17,941,941**	**-**	**-**	**17,941,941**	20,939,700	-	-	20,939,700

43 Risk management (continued)

Gross carrying amount (continued)

	2020				**2019**			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Deposits and balances due from banks								
Gross carrying amount as at 1 January	**25,348,120**	**1,288,001**	**38,329**	**26,674,450**	22,284,395	756,095	35,427	23,075,917
Transfers								
Transfer from Stage 1 to Stage 2	**(5,326,464)**	**5,326,464**	**-**	**-**	(1,272,567)	1,272,567	-	-
Transfer from Stage 2 to Stage 1	**1,415**	**(1,415)**	**-**	**-**	-	-	-	-
New financial assets originated	**25,956,861**	**-**	**-**	**25,956,861**	24,787,948	-	-	24,787,948
Repayments and other movements	**(23,184,822)**	**(1,088,031)**	**46,694**	**(24,226,159)**	(20,451,656)	(740,661)	2,902	(21,189,415)
Gross carrying amount as at 31 December	**22,795,110**	**5,525,019**	**85,023**	**28,405,152**	25,348,120	1,288,001	38,329	26,674,450

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Other financial assets measured at amortised cost and FVTOCI								
Gross carrying amount as at 1 January	**12,357,332**	**1,009,106**	**2,205**	**13,368,643**	12,033,723	-	-	12,033,723
Transfers								
Transfer from Stage 1 to Stage 2	**-**	**-**	**-**	**-**	(976,109)	976,109	-	
New financial assets originated	**9,391,139**	**-**	**-**	**9,391,139**	11,425,913	-	-	11,425,913
Repayments and other movements	**(4,256,227)**	**(1,009,106)**	**-**	**(5,265,333)**	(10,126,195)	32,997	2,205	(10,090,993)
Gross carrying amount as at 31 December	**17,492,244**	**-**	**2,205**	**17,494,449**	12,357,332	1,009,106	2,205	13,368,643

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Loans and advances measured at amortised cost								
Gross carrying amount as at 1 January	**57,261,500**	**5,141,967**	**3,151,181**	**65,554,648**	52,564,482	4,661,971	2,607,470	59,833,923
Transfers								
Transfer from Stage 1 to Stage 2	**(3,922,161)**	**3,922,161**	**-**	**-**	(2,601,861)	2,601,861	-	-
Transfer from Stage 1 to Stage 3	**(420,580)**	**-**	**420,580**	**-**	(309,396)	-	309,396	-
Transfer from Stage 2 to Stage 3	**-**	**(928,334)**	**928,334**	**-**	-	(400,724)	400,724	-
Transfer from Stage 3 to Stage 2	**-**	**1,249**	**(1,249)**	**-**	-	19,213	(19,213)	-
Transfer from Stage 2 to Stage 1	**378,362**	**(378,362)**	**-**	**-**	641,947	(641,947)	-	-
New financial assets originated	**34,226,398**	**-**	**-**	**34,226,398**	31,611,942	-	-	31,611,942
Repayments and other movements	**(33,715,915)**	**(2,452,731)**	**213,865**	**(35,954,781)**	(24,645,614)	(1,098,407)	499,175	(25,244,846)
Write-offs	**-**	**-**	**(1,136,228)**	**(1,136,228)**	-	-	(646,371)	(646,371)
Gross carrying amount as at 31 December	**53,807,604**	**5,305,950**	**3,576,483**	**62,690,037**	57,261,500	5,141,967	3,151,181	65,554,648

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Islamic financing and other investments measured at amortised cost								
Gross carrying amount as at 1 January	**13,718,735**	**532,172**	**334,440**	**14,585,347**	12,196,796	682,884	175,631	13,055,311
Transfers								
Transfer from Stage 1 to Stage 2	**(211,891)**	**211,891**	**-**	**-**	(348,697)	348,697	-	-
Transfer from Stage 1 to Stage 3	**(367,862)**	**-**	**367,862**	**-**	(25,795)	-	25,795	-
Transfer from Stage 2 to Stage 3	**-**	**(65,008)**	**65,008**	**-**	-	(19,781)	19,781	-
Transfer from Stage 2 to Stage 1	**10,679**	**(10,679)**	**-**	**-**	15,519	(15,519)	-	-
New financial assets originated	**7,880,139**	**-**	**-**	**7,880,139**	9,023,025	-	-	9,023,025
Repayments and other movements	**(7,728,481)**	**(376,952)**	**355,221**	**(7,750,212)**	(7,142,113)	(464,109)	164,026	(7,442,196)
Write-offs	**-**	**-**	**(61,601)**	**(61,601)**	-	-	(50,793)	(50,793)
Gross carrying amount as at 31 December	**13,301,319**	**291,424**	**1,060,930**	**14,653,673**	13,718,735	532,172	334,440	14,585,347

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Other assets								
Gross carrying amount as at 1 January	**-**	**597,644**	**459,230**	**1,056,874**	-	803,517	389,262	1,192,779
Transfers		**-**	**-**	**-**				
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-	(143,778)	143,778	-
Repayments and other movements	**-**	**(12,059)**	**8,953**	**(3,106)**	-	(62,095)	(73,810)	(135,905)
Write-offs	**-**	**(20)**	**(39,751)**	**(39,771)**				
Gross carrying amount as at 31 December	**-**	**585,565**	**428,432**	**1,013,997**	-	597,644	459,230	1,056,874
Acceptances								
Gross carrying amount as at 1 January	**12,749,871**	**153,212**	**-**	**12,903,083**	9,731,526	50,603	-	9,782,129
Transfers								
Transfer from Stage 1 to Stage 2	**(91,840)**	**91,840**	**-**	**-**	(150,146)	150,146	-	-
Transfer from Stage 2 to Stage 1	**394**	**(394)**	**-**	**-**				
New financial assets originated	**13,132,880**	**-**	**-**	**13,132,880**	12,847,188	-	-	12,847,188
Repayments and other movements	**(13,110,411)**	**(158,091)**	**-**	**(13,268,502)**	(9,678,697)	(47,537)	-	(9,726,234)
Gross carrying amount as at 31 December	**12,680,894**	**86,567**	**-**	**12,767,461**	12,749,871	153,212	-	12,903,083

43 Risk management (continued)

Gross carrying amount (continued)

	2020				2019			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Off-balance sheet items								
At 1 January	**55,481,252**	**3,250,260**	**-**	**58,731,512**	51,406,203	4,349,289	-	55,755,492
Transfers								
Transfer from Stage 1 to Stage 2	**(2,124,307)**	**2,124,307**	**-**	**-**	(516,237)	516,237	-	-
Transfer from Stage 1 to Stage 3	**(2,334,330)**	**-**	**2,334,330**	**-**				
Transfer from Stage 2 to Stage 3	**-**	**(235,353)**	**235,353**	**-**	-	(25,771)	25,771	-
Transfer from Stage 3 to Stage 2	**-**	**1,127**	**(1,127)**	**-**				
Transfer from Stage 2 to Stage 1	**179,362**	**(179,362)**	**-**	**-**	310,990	(310,990)	-	-
New financial assets originated	**17,717,819**	**-**	**-**	**17,717,819**	16,218,373	-	-	16,218,373
Repayments and other movements	**(19,806,408)**	**(702,550)**	**(186,843)**	**(20,695,801)**	(11,938,077)	(1,278,505)	(25,771)	(13,242,353)
At 31 December	**49,113,388**	**4,258,429**	**2,381,713**	**55,753,530**	55,481,252	3,250,260	-	58,731,512

43 Risk management (continued)

Write-off policy

The Group writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include (i) ceasing enforcement activity and (ii) where the Group's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full. The Group may write-off financial assets but they are still subject to enforcement activity. The Group still seeks to recover amounts it is legally owned in full, but which have been partially or fully written off due to no reasonable expectation of recovery.

Modification of financial assets

The Group modifies terms of loans provided to customers from time-to-time primarily due to ongoing client needs, commercial renegotiations or for managing distressed loans. In 2020, the Bank also modified terms for customers in line with COVID-19 economic relief programmes announced in countries where the Bank operates. Refer COVID-19 impact on measurement of ECL section for details on loans modified during the year.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial, it does not result in derecognition of the original asset. The Group may determine that credit risk has significantly improved after restructuring, and such assets are moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12 month ECL). This is only done when modified assets have performed in accordance with the new terms for twelve consecutive months or more.

Operational risk management

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events, and includes legal risk. Operational risk excludes strategic and reputational risk.

43 Risk management (continued)

Operational Risk Governance

Whilst the Group cannot eliminate all operational risks, it has developed a comprehensive framework of identifying, assessing, controlling, mitigating, monitoring and reporting Operational risk and consists of the following:

- Ownership of the risk & controls by businesses and functional units;
- Monitoring and validation by business;
- Oversight by Operational risk management team; and
- Independent review by Internal Audit

Operational risk management follows three lines of defence model;

The first line of defence is the Business Line Management. The operational risk governance will recognize that Business Units (BUs) are the owners of risk and hence responsible for identifying and managing the risks, inherent in the products, services and activities, within their BUs.

The second line of defence is the Operational Risk Management function, the Chief Risk Officer and the Enterprise Risk Committee. They are collectively responsible for designing, implementing, coordinating, reporting and facilitating effective Operational Risk Management on Group-wide basis.

The third line of defence is the Internal Audit who are responsible to independently assess the effectiveness and efficiency of the internal control, and for independently validate and provide an independent assurance to the Board Audit Committee (BAC) on the adequacy and effectiveness of the Operational Risk Management Framework.

The Board, through the Board Risk Committee, has the overall responsibility for managing operational risk at the Bank and ensure that the three line of defence approach is implemented and operated in an appropriate and acceptable manner.

The Group has adopted The Standardized Approach (TSA) to determine its operational risk capital requirements.

Operational Risk Appetite

The Group's operational risk appetite articulates the boundaries for quantitative and qualitative operational risks that the Bank is willing to take (or not take), with respect to pursuit of its strategic objectives. It helps in setting the risk culture across the Bank and facilitates an effective implementation of the Bank's Operational Risk Management Framework. The operational risk appetite is applied for decision-making and comprehending operational risk exposures across the Bank through implementation of policies, controls and operational risk tolerances.

43 Risk management (continued)

Operational Risk Management Framework

The Group's Operational Risk Management Framework ("ORMF") is a set of interrelated tools and processes that are used to identify, assess, measure, monitor and remediate operational risks. Its components have been designed to operate together to provide a comprehensive approach to managing the Group's most material operational risks. ORMF components include the setup of the three lines of defence as well as roles and responsibilities for the Operational Risk management process and appropriate independent challenge, the Group's approach to setting Operational Risk appetite and adhering to it, the Operational Risk type and control taxonomies, the minimum standards for Operational Risk management processes including tools, independent governance, and the Bank's Operational Risk capital model. Tools implemented for the identification and assessment of Operational risk include and is not limited to:

a) Risk and Control Self-Assessment
b) Operational Risk Event Management
c) Key Risk Indicator Management
d) New Business Systems & Process Approval (NPPA); and
e) Issues and Action Management

43 Risk management (continued)

Incident management

The reporting of Operational risk incidents is a critical component of the Group's Operational risk management framework. This ensures greater risk transparency across the organisation and helps to identify gaps and facilitate timely remedial action for potential risk exposures.

The Central Bank of U.A.E. published final guidelines on operational risk management in October 2018. These guidelines lay out detailed supervisory expectations relating to operational risk governance, identification and assessment, systems and reporting.

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

Market risk management

Market Risk is the risk that fair value or cash flows of financial instruments held by the Group or its income may be adversely affected by movement in market factors, such as interest rates, credit spreads, foreign exchange rates, equity and commodity prices.

Market Risk at the Group is governed by a comprehensive control framework as defined by the approved Market Risk Policy. This function is independent of any risk taking businesses. The Market Risk function folds under Risk Management Group and reports to the Chief Risk Officer of the Group.

Market risk arises from the Group's trading and non-trading activities. The Market Risk Management function primarily manages risks arising from trading activities. Interest risk exposure arising from non-trading activities is managed by the Assets & Liabilities Committee (ALCO). Trading risks are primarily concentrated in Treasury and Capital Markets (TCM) and are managed by a robust framework of market risk limits that reflect the Group's market risk appetite. Appropriate limits are placed on position sizes, stop loss levels, as well as on market factor sensitivities depending on the size and complexity of trading strategies involved. A comprehensive risk reporting framework is in place where by, the positions are monitored daily against the established limits and monitoring reports are circulated to the Market Risk Management and the respective Business Heads. In case of a limit exception, corrective action is taken in line with the Market Risk Policy or the concerned trading desk's limits mandate.

Each trading desk has a 'permitted product list' comprising of products and structures which have been determined to be appropriate for the TCM desk to trade. Any addition to this list is made after approval from Head of TCM, Head of Market Risk and Chief Risk Officer who assess the risks associated with the product and verify that they can be controlled effectively prior to approving the product.

43 Risk management (continued)

Market risk management (continued)

The bank uses Value at Risk (VaR) methodology as its core analytical tool to assess risks across proprietary trading desks. VaR is an estimate of the potential losses arising in a portfolio over a specified time horizon due to adverse changes in underlying market factors. The Bank calculates its one-day VaR at a 99% confidence interval mainly using Monte Carlo Simulations approach across its trading portfolio and open FX position. VaR results are highly dependent on assumptions around input variables used in the model and also VaR does not provide the 'worst case' possible loss.

Being a statistical technique, VaR is known to have limitations and therefore its interpretation needs to be further supplemented by other limits, sensitivity triggers or stress tests. Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

Stress testing is conducted by generating extreme, but plausible scenarios, such as significant movements in interest rates, credit spreads, etc. and analysing their effect on the Group's trading positions.

As of 31 December 2020 the 99% 1-day VaR was estimated at USD 1.76 million (31 December 2019: USD 7.06 million) for the bank wide market risk positions (stemming mainly from proprietary trading in interest rates products, equities and FX net open position). The bank's VaR model considers FX risk in all currencies, including GCC pegged currencies except USD and AED.

There has been no change to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Libor transition

In light of international developments around discontinuation of use of London Interbank Offer Rate (LIBOR) in the financial industry, the Group has commenced its efforts to transition away from LIBOR to Alternate Reference Rates (ARRs). The Financial Conduct Authority (FCA) in the UK, that oversees LIBOR, has advised that it will not compel panel bank to contribute interest rates for LIBOR calculation beyond 31 December 2021, thereby leading to cessation of LIBOR in its current form. LIBOR is the most commonly referenced interest rate in financial products such as loans, derivatives, bonds, trade and personal financial products.

The Group has put in place a cross functional program to plan and oversee the approach to LIBOR transition in coordination with international developments. The transition has broad implications for the Group and the Group's stakeholders ranging from legal, financial, technical and operational considerations. The Group expects to commence engaging relevant stakeholders at relevant points over the course of 2021.

43 Risk management (continued)

Interest rate risk management

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

The Group uses simulation-modelling tools to measure and monitor interest rate sensitivity. The results are analysed and monitored by the Assets and Liabilities Committee ("ALCO"). Since majority of the Group's assets and liabilities are floating rate, deposits and loans generally are repriced within a short period of each other providing a natural hedge, which reduces interest rate risk exposure. Moreover, the majority of the Group's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

The impact of 50 basis points sudden movement in benchmark interest rate on net interest income over a 12 months period as at 31 December 2020 would be a decrease in net interest income by -4.0% (in case of decrease of interest rates) and would have been an increase in net interest income by +3.5% (in case of increase of interest rates) [31 December 2019: -4.2% and +4.1%] respectively.

During the year ended 31 December 2020, the effective interest rate on due from banks and certificates of deposits with central banks was 1.4% (31 December 2019: 2.6%), on loans and advances measured at amortised cost 3.9% (31 December 2019: 5.7%), on customers' deposits 1.6% (31 December 2019: 2.1%) and on due to banks (including repurchase agreements) 1.1% (31 December 2019: 2.1%).

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

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2020							
Assets							
Cash and balances with central banks	**8,392,028**	**2,000,000**	**2,000,000**	**-**	**-**	**5,549,913**	**17,941,941**
Deposits and balances due from banks	**14,328,592**	**4,158,303**	**3,804,056**	**389,681**	**138,967**	**5,419,431**	**28,239,030**
Other financial assets measured at fair value	**581,385**	**37,170**	**2,547,845**	**937,238**	**3,190,815**	**1,144,650**	**8,439,103**
Other financial assets measured at amortised cost	**411,012**	**1,218,138**	**2,397,772**	**3,627,965**	**3,345,767**	**-**	**11,000,654**
Loans and advances measured at amortised cost	**44,142,598**	**2,244,840**	**1,873,136**	**3,433,364**	**3,919,763**	**1,672,710**	**57,286,411**
Islamic financing and investment products measured at amortised cost	**11,757,598**	**233,106**	**169,835**	**438,141**	**1,091,407**	**556,256**	**14,246,343**
Acceptances	**-**	**-**	**-**	**-**	**-**	**12,767,461**	**12,767,461**
Other assets	**-**	**-**	**-**	**-**	**-**	**3,478,455**	**3,478,455**
Reinsurance contract assets	**-**	**-**	**-**	**-**	**-**	**2,891,920**	**2,891,920**
Investment in associate	**-**	**-**	**-**	**-**	**-**	**20,996**	**20,996**
Investment properties	**-**	**-**	**-**	**-**	**-**	**449,715**	**449,715**
Property and equipment	**-**	**-**	**-**	**-**	**-**	**1,466,769**	**1,466,769**
Intangible assets	**-**	**-**	**-**	**-**	**-**	**294,442**	**294,442**
Total assets	**79,613,213**	**9,891,557**	**12,792,644**	**8,826,389**	**11,686,719**	**35,712,718**	**158,523,240**

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2020	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	4,963,548	1,994,543	1,782,565	-	-	6,103,724	14,844,380
Repurchase agreements with banks	56,819	25,950	80,273	1,373,681	-	753,000	2,289,723
Customers' deposits	22,251,958	6,771,925	8,094,963	1,911,872	337,025	37,008,230	76,375,973
Islamic customers' deposits	4,307,813	1,800,117	1,344,326	2,090,995	-	2,341,315	11,884,566
Acceptances	-	-	-	-	-	12,767,461	12,767,461
Other liabilities	-	-	-	-	-	5,808,908	5,808,908
Medium-term loans	378,750	1,274,114	603,865	6,799,541	40,088	519,684	9,616,042
Insurance contract liabilities	-	-	-	-	-	4,747,779	4,747,779
Equity attributable to shareholders of the Parent	-	-	-	-	-	19,430,728	19,430,728
Non-controlling interest	-	-	-	-	-	757,680	757,680
Total liabilities and equity	31,958,888	11,866,649	11,905,992	12,176,089	377,113	90,238,509	158,523,240
On balance sheet gap	47,654,324	(1,975,092)	886,653	(3,349,700)	11,309,607	(54,525,792)	-
Off balance sheet gap	(24,013)	24,013	-	-	-	-	-
Cumulative interest rate sensitivity gap	47,630,311	45,679,232	46,565,885	43,216,185	54,525,792	-	-

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2019							
Assets							
Cash and balances with central banks	11,567,286	-	-	-	-	9,372,414	20,939,700
Deposits and balances due from banks	14,252,579	5,951,926	1,996,293	449,010	383	3,915,657	26,565,848
Other financial assets measured at fair value	181,732	275,331	220,714	787,653	1,881,836	1,174,900	4,522,166
Other financial assets measured at amortised cost	1,217,204	447,998	408,761	5,159,305	3,641,885	-	10,875,153
Loans and advances measured at amortised cost	41,650,451	5,434,545	2,143,368	5,372,882	5,665,666	1,443,365	61,710,277
Islamic financing and investment products measured at amortised cost	11,807,432	124,604	228,056	1,034,134	1,015,267	247,264	14,456,757
Acceptances	-	-	-	-	-	12,903,083	12,903,083
Other assets	-	-	-	-	-	2,738,265	2,738,265
Reinsurance contract assets	-	-	-	-	-	2,585,918	2,585,918
Investment in associate	-	-	-	-	-	29,355	29,355
Investment properties	-	-	-	-	-	473,591	473,591
Property and equipment	-	-	-	-	-	1,367,993	1,367,993
Intangible assets	-	-	-	-	-	262,877	262,877
Total assets	80,676,684	12,234,404	4,997,192	12,802,984	12,205,037	36,514,682	159,430,983

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2019	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	4,696,741	1,341,611	1,136,905	-	-	4,009,239	11,184,496
Repurchase agreements with banks	377,572	710,965	-	-	-	-	1,088,537
Customers' deposits	24,095,523	9,370,265	11,658,406	2,218,928	388,010	28,708,440	76,439,572
Islamic customers' deposits	6,123,879	1,367,784	729,859	4,478,684	1,300	1,827,755	14,529,261
Acceptances	-	-	-	-	-	12,903,083	12,903,083
Other liabilities	-	-	-	-	-	4,950,558	4,950,558
Medium-term loans	1,651,848	1,810,574	944,430	6,906,205	37,447	488,253	11,838,757
Insurance contract liabilities	-	-	-	-	-	4,253,789	4,253,789
Equity attributable to shareholders of the Parent	-	-	-	-	-	21,532,582	21,532,582
Non-controlling interest	-	-	-	-	-	710,348	710,348
Total liabilities and equity	36,945,563	14,601,199	14,469,600	13,603,817	426,757	79,384,047	159,430,983
On balance sheet gap	43,731,121	(2,366,795)	(9,472,408)	(800,833)	11,778,280	(42,869,365)	-
Off balance sheet gap	(873,724)	749,120	96,540	30,640	(2,576)	-	-
Cumulative interest rate sensitivity gap	42,857,397	41,239,722	31,863,854	31,093,661	42,869,365	-	-

43 Risk management (continued)

Currency risk management

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates. Limits on positions by currencies are monitored on a regular basis. The Group's exposures on 31 December are as follows:

	31 December 2020			31 December 2019		
	Net spot position AED'000	**Net Forward position AED'000**	**Net Position AED'000**	Net spot position AED'000	Net Forward position AED'000	Net Position AED'000
U.S. Dollars	**5,006,141**	**(4,498,538)**	**507,603**	15,195,469	(10,245,720)	4,949,749
Qatari Riyals	**(162,513)**	**(12,400)**	**(174,913)**	1,185,710	(191,499)	994,211
Pound Sterling	**1,310,671**	**(1,328,842)**	**(18,171)**	(797,850)	804,460	6,610
Euro	**324,346**	**(302,379)**	**21,967**	(1,721,979)	1,778,039	56,060
Bahrain Dinar	**159,738**	**(133,993)**	**25,745**	47,168	(1,587)	45,581
Saudi Riyal	**(5,621,881)**	**5,632,255**	**10,374**	(6,116,802)	6,112,073	(4,729)
Japanese Yen	**(1,259,975)**	**1,268,436**	**8,461**	(1,005,238)	1,016,843	11,605
Swiss Francs	**3,550**	**(884)**	**2,666**	153	7	160
Kuwaiti Dinar	**(142,092)**	**(38,596)**	**(180,688)**	236,062	(156,647)	79,415
Chinese Yuan	**(1,348,336)**	**1,351,924**	**3,588**	(888,485)	888,453	(32)
Other	**(173,397)**	**(62,326)**	**(235,723)**	789,736	63,670	853,406
Total	**(1,903,748)**	**1,874,657**	**(29,091)**	6,923,944	68,092	6,992,036

The exchange rate of AED against US Dollar is pegged and the Group's exposure to currency risk is limited to that extent.

Most of the major positions are in currencies that are pegged to the U.S. Dollar; therefore, any change in their exchange rates will have insignificant sensitivity on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

Liquidity risk management

Liquidity risk is the risk that the Group's entities, in various locations and in various currencies, will be unable to meet a financial commitment to a customer, creditor, or investor when due.

43 Risk management (continued)

Liquidity risk management (continued)

The Group's senior management's focus on liquidity management is to:

- better understand the various sources of liquidity risk, particularly under stressed conditions;
- ensure the Group's short term and long term resilience, as measured by the Basel III guidelines, is sufficiently robust to meet realistic adverse scenarios;
- develop effective contingency funding plans to deal with liquidity crises;
- develop liquidity risk tolerance levels within the Internal Capital Adequacy Assessment Process (ICAAP) framework; and
- demonstrate that the bank can survive the closure of one or more funding markets by ensuring that funding can be readily raised from a variety of sources.

In compliance with Basel Committee on Banking Supervision ("BCBS") document titled "Principles for Sound Liquidity Management" and CBUAE "Regulations re Liquidity at Banks" (Circular Number 33/2015) and accompanying Guidance Manual, the Group has established a robust liquidity management framework that is well integrated into the bank-wide risk management process. A primary objective of the liquidity management framework is to ensure with a high degree of confidence that the Bank is in a position to both address its daily liquidity obligations and withstand a period of liquidity stress. In addition to maintaining sound liquidity governance and management practices, the Bank also holds an adequate liquidity cushion comprised of High Quality Liquid Assets ("HQLA") to be in a position to survive such periods of liquidity stress. The Bank's Liquidity Management Framework has two tiers:

1. **Board of Directors oversight** through review and approval of Liquidity Management Policy and definition of Liquidity Risk Tolerance Limits

2. **Strategies, policies and practices developed by the ALCO** to manage liquidity risk in accordance with the Board of directors approved risk tolerance and ensure that the bank maintains sufficient liquidity

43 Risk management (continued)

Liquidity risk management (continued)

The Group's Board of Directors (the "Board") bears the ultimate responsibility for liquidity risk management within the bank. The Board members hence are familiar with liquidity risk and how it is managed as well as have a thorough understanding of how other risks including credit, market, operational and reputation risks affect the bank's overall liquidity risk strategy.

Mashreqbank's Head Office ("HO") and International Banking Group ("IBG") Asset and Liability Committees ("ALCO") are responsible for formulating policies for implementing the Board approved liquidity risk appetite. ALCOs have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. ALCOs meets on a regular basis to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio compliance, funding and repricing gaps and general domestic and international economic and financial market conditions. ALCOs determines the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity position at all locations.

The Asset Liability Management ("ALM") function in the Group is then responsible for implementing the ALCO policies. In this regard, the following policies, procedures and systems have been implemented:

The Head Office ALCO comprises of the Chief Executive Officer, the Head of Corporate Affairs, the Head of Retail Banking Group, the Head of Corporate Banking Group, Chief Risk Officer, Chief Credit Officer, the Head of International Banking and the Head of Treasury & Capital Markets.

The IBG ALCO comprises of Head of International Banking, Head of Retail Banking, Chief Risk Officer, Head of Treasury & Capital Markets, Funding Centre, Finance and representatives from respective international locations.

a) Maintenance of Adequate HQLA ("High Quality Liquid Assets") cushion

The Bank holds a portfolio of HQLA aligned with the established risk tolerance of the bank, which means at a minimum it is sufficient to meet all regulatory ratios under normal operating conditions, and enough to meet the liquidity needs under stressed conditions as estimated by the Stress tests.

43 Risk management (continued)

Liquidity risk management (continued)

b) Gap limits

The minimum size of net placements in highly liquid money market instruments is decided by ALCO based on factors including size of the balance sheet, asset growth plans and liquidity outlook.

The Money Book deployments are also required to adhere to gap limits, to ensure that the bank is in a position to meet a range of liquidity needs, including longer term structural, short term and intraday.

c) Forward looking Funding Plan ensuring effective diversification in the sources and tenor of funding

Mashreqbank develops its funding plan as part of its annual planning exercise. The plan places significant emphasis on diversifying the funding sources and maintaining market access to different sources of funding.

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, as of 31 December 2020 has an outstanding balance of AED 9.62 billion (31 December 2019: AED 11.84 billion) [Note 19] in medium-term loans. The Bank also established a Certificate of Deposit (CD) programme through its London branch in 2014 and Hong Kong Branch in 2019.

d) Stress Testing for a variety of short-term and protracted institution-specific and market-wide stress scenarios

Stress tests enable the bank to analyze the impact of stress scenarios on its liquidity position at entity level and business lines. The stress scenarios have been designed to incorporate the major funding and market liquidity risks to which the bank is exposed. ALCO and the Board reviews the bank's choice of scenarios and related assumptions as well as the results of the stress tests.

e) Contingency Funding Plan outlining the Bank's step by step response to Liquidity contingency situations of different magnitudes

Mashreqbank has a formal contingency funding plan ("CFP"), which is updated, reviewed and approved by the HO ALCO and the Board on an annual basis.

43 Risk management (continued)

Liquidity risk management (continued)

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

Mashreqbank has a well-developed FTP policy and system that aims to create transparency in profitability and insulate Business Units from interest rate risk.

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

Mashreqbank's liquidity policies, procedures and systems are subject to end to end review by internal audit as well as by the CBUAE.

The Central bank of UAE through its circular no. 33/2015 dated 27 May 2015 announced Regulations regarding Liquidity at Banks followed by a Guidance Manual. The above mentioned regulations introduced a new Liquidity ratio called Eligible Liquid Assets ratio ("ELAR") applicable from 1 July 2015 as well as the intention to start the transition to the Basel III Liquidity standards from 1 January 2016. To monitor and manage liquidity risk, the Group uses various indicators including the regulatory ratios of Advances to Stable Resources ("ASRR") and the recently implemented ELAR. Other indicators include loans and advances to customers' deposits, liquid assets to total assets, deposit concentration risk indicators, and limits for liquidity gaps. Any breach of any tolerance level needs to be reported to ALCO and remedied within a short period.

43 Risk management (continued)

Liquidity risk management (continued)

The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the reporting date to the contractual maturity date.

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2020 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	**13,941,941**	**2,000,000**	**2,000,000**	**-**	**-**	**17,941,941**
Deposits and balances due from banks	**18,949,322**	**3,467,761**	**4,951,682**	**870,265**	**-**	**28,239,030**
Other financial assets measured at fair value	**1,153,708**	**37,170**	**2,547,845**	**937,238**	**3,763,142**	**8,439,103**
Other financial assets measured at amortised cost	**411,012**	**1,233,765**	**2,396,924**	**3,626,681**	**3,332,272**	**11,000,654**
Loans and advances measured at amortised cost	**18,822,621**	**4,143,633**	**4,078,018**	**15,692,258**	**14,549,881**	**57,286,411**
Islamic financing and investment products measured at amortised cost	**5,932,170**	**1,314,330**	**400,708**	**2,588,022**	**4,011,113**	**14,246,343**
Acceptances	**2,816,593**	**3,876,726**	**5,768,024**	**306,118**	**-**	**12,767,461**
Other assets	**2,039,170**	**250,057**	**864,649**	**137,428**	**187,151**	**3,478,455**
Reinsurance contract assets	**795,598**	**502,291**	**583,966**	**965,161**	**44,904**	**2,891,920**
Investment in associate	**-**	**-**	**-**	**-**	**20,996**	**20,996**
Investment properties	**-**	**-**	**-**	**-**	**449,715**	**449,715**
Property and equipment	**-**	**-**	**-**	**-**	**1,466,769**	**1,466,769**
Intangible assets	**-**	**-**	**-**	**-**	**294,442**	**294,442**
Total assets	**64,862,135**	**16,825,733**	**23,591,816**	**25,123,171**	**28,120,385**	**158,523,240**

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	11,067,272	1,994,544	1,782,564	-	-	14,844,380
Repurchase agreements with banks	809,819	25,950	80,273	1,373,681	-	2,289,723
Customers' deposits	59,164,753	6,895,909	8,028,747	1,930,771	355,793	76,375,973
Islamic customers' deposits	6,609,923	1,800,117	1,383,530	2,090,996	-	11,884,566
Acceptances	2,816,593	3,876,726	5,768,024	306,118	-	12,767,461
Other liabilities	4,273,745	350,012	696,971	357,251	130,929	5,808,908
Medium-term loans	347,374	1,274,114	603,865	7,350,602	40,087	9,616,042
Insurance contract liabilities	1,424,304	787,458	826,343	1,270,167	439,507	4,747,779
Equity attributable to shareholders of the Parent	-	-	-	-	19,430,728	19,430,728
Non-controlling interest	-	-	-	-	757,680	757,680
Total liabilities and equity	86,513,783	17,004,830	19,170,317	14,679,586	21,154,724	158,523,240
Guarantees	7,379,488	2,384,489	7,274,352	10,154,237	13,077,681	40,270,247
Letters of credit	5,395,946	1,835,813	1,452,649	551,193	-	9,235,601
Total	12,775,434	4,220,302	8,727,001	10,705,430	13,077,681	49,505,848

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2019 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	20,939,242	-	458	-	-	20,939,700
Deposits and balances due from banks	16,878,597	5,322,200	3,233,051	962,208	169,792	26,565,848
Other financial assets measured at fair value	758,792	275,361	221,005	787,822	2,479,186	4,522,166
Other financial assets measured at amortised cost	1,209,720	468,749	408,761	5,159,305	3,628,618	10,875,153
Loans and advances measured at amortised cost	18,553,883	7,696,357	3,697,801	17,394,159	14,368,077	61,710,277
Islamic financing and investment products measured at amortised cost	6,359,711	1,679,014	405,699	2,292,989	3,719,344	14,456,757
Acceptances	1,213,171	3,045,453	8,415,774	228,685	-	12,903,083
Other assets	2,084,518	208,537	-	287,528	157,682	2,738,265
Reinsurance contract assets	-	-	2,555,420	30,498	-	2,585,918
Investment in associate	-	-	-	-	29,355	29,355
Investment properties	-	-	-	-	473,591	473,591
Property and equipment	-	-	-	-	1,367,993	1,367,993
Intangible assets	-	-	-	-	262,876	262,876
Total assets	67,997,634	18,695,671	18,937,969	27,143,194	26,656,515	159,430,983

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	8,652,705	1,341,611	1,136,905	53,275	-	11,184,496
Repurchase agreements with banks	377,572	710,965	-	-	-	1,088,537
Customers' deposits	51,827,308	9,645,635	12,017,534	2,559,960	389,135	76,439,572
Islamic customers' deposits	7,951,633	1,367,785	729,859	4,478,684	1,300	14,529,261
Acceptances	1,213,171	3,045,453	8,415,774	228,685	-	12,903,083
Other liabilities	3,351,440	617,665	438,711	281,880	260,862	4,950,558
Medium-term loans	1,615,542	1,810,574	982,405	7,392,789	37,447	11,838,757
Insurance contract liabilities	-	-	3,748,666	505,123	-	4,253,789
Equity attributable to shareholders of the Parent	-	-	-	-	21,532,582	21,532,582
Non-controlling interest	-	-	-	-	710,348	710,348
Total liabilities and equity	74,989,371	18,539,688	27,469,854	15,500,396	22,931,674	159,430,983
Guarantees	6,262,848	3,219,797	6,285,102	13,149,328	15,005,134	43,922,209
Letters of credit	4,156,613	1,498,968	926,690	1,263,275	-	7,845,546
Total	10,419,461	4,718,765	7,211,792	14,412,603	15,005,134	51,767,755

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile of Group's liabilities based on contractual undiscounted repayment obligations as at 31 December 2020.

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	**11,067,272**	**1,994,544**	**1,782,564**	**-**	**-**	**14,844,380**
Repurchase agreements with banks	**809,819**	**25,950**	**80,273**	**1,373,681**	**-**	**2,289,723**
Customers' deposits	**59,267,776**	**6,953,113**	**8,092,559**	**2,478,748**	**369,086**	**77,161,282**
Islamic customers' deposits	**6,704,920**	**1,921,464**	**1,508,680**	**2,094,491**	**-**	**12,229,555**
Acceptances	**2,816,593**	**3,876,726**	**5,768,024**	**306,118**	**-**	**12,767,461**
Other liabilities	**3,636,540**	**350,012**	**696,971**	**357,251**	**130,929**	**5,171,703**
Medium-term loans	**348,671**	**1,280,771**	**681,984**	**7,355,207**	**40,088**	**9,706,721**
Insurance contract liabilities	**1,424,304**	**787,458**	**826,343**	**1,270,167**	**439,507**	**4,747,779**
Equity attributable to shareholders of the Parent	**-**	**-**	**-**	**-**	**19,430,728**	**19,430,728**
Non-controlling interest	**-**	**-**	**-**	**-**	**757,680**	**757,680**
Total liabilities and equity	**86,075,895**	**17,190,038**	**19,437,398**	**15,235,663**	**21,168,018**	**159,107,012**

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile of Group's liabilities based on contractual undiscounted repayment obligations as at 31 December 2019.

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	8,652,705	1,341,611	1,136,905	53,275	-	11,184,496
Repurchase agreements with banks	377,572	710,965	-	-	-	1,088,537
Customers' deposits	52,034,818	9,863,969	12,334,677	2,923,679	412,639	77,569,782
Islamic customers' deposits	8,080,024	1,382,141	747,961	4,771,151	1,580	14,982,857
Acceptances	1,213,171	3,045,453	8,415,774	228,685	-	12,903,083
Other liabilities	3,351,440	617,665	438,711	281,880	260,862	4,950,558
Medium-term loans	1,659,656	1,819,814	1,034,426	8,283,851	50,939	12,848,686
Insurance contract liabilities	-	-	3,748,666	505,123	-	4,253,789
Equity attributable to shareholders of the Parent	-	-	-	-	21,532,582	21,532,582
Non-controlling interest	-	-	-	-	710,348	710,348
Total liabilities and equity	75,369,386	18,781,618	27,857,120	17,047,644	22,968,950	162,024,718

43 Risk management (continued)

Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.
The Group manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

The distribution of insurance contract liabilities and reinsurance contract assets as at 31 December 2020 and 31 December 2019 is as follows:

	2020	2019
	AED'000	AED'000
Insurance contract liabilities		
UAE	**4,382,374**	3,805,193
Other Middle East countries	**365,405**	448,596
	4,747,779	4,253,789
Reinsurance contract assets		
UAE	**2,623,959**	2,257,168
Other Middle East countries	**267,961**	328,750
	2,891,920	2,585,918

43 Risk management (continued)

Insurance Risk (continued)

Frequency and Severity of Claims

The Group has the right not to renew individual policies, to re-price the risk, to impose deductibles and to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Group's strategy limits the total exposure to any one territory and the exposure to any one industry.

43 Risk management (continued)

Insurance Risk (continued)

Sources of Uncertainty in the Estimation of Future Claim Payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The amount of insurance claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period. Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Assuming all the other factors remained constant; an impact of an increase / decrease of 1% in claims will result in corresponding increase/ decrease in net claims incurred by AED 16 million (2019: AED 16 million).

COVID-19 impact on insurance subsidiary of the Group

The Bank’s insurance subsidiary ("subsidiary") assessed the impact of Covid-19 on business continuity, claims and reserving, control environment, credit risk, fair value of investment properties (refer to Note 11), impairment of financial investments measured at amortised cost, liquidity and solvency as explained below.

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

The subsidiary mainly noticed an increase in Health Care claims and Business Interruption claims due to COVID-19. The subsidiary is monitoring the loss experience and has appropriately enhanced its technical reserves as at 31 December 2020. The impact on life insurance was minimal as of the year end.

43 Risk management (continued)

Insurance Risk (continued)

COVID-19 impact on insurance subsidiary of the Group

Since 2019, the subsidiary has developed a robust risk appetite framework and capital thresholds based on the pandemic risk and other risks stress scenarios. Having considered the impact of COVID-19, the subsidiary reassessed its control environment around fraud and information security to ensure adequate controls are in place and conducts more regular reviews on its reinsurers in relation to the counterparty credit ratings, financial metrics, credit outlook and changes to their structures, if any. Also, the subsidiary has updated its reinsurer security list in order to address the impact of COVID-19. The current security list has more than 92% of “A” rated reinsurance securities.

In parallel, the subsidiary continues to have a robust collection and credit control process. Further enhancement and development to strengthen the processes and credit controls have resulted in an efficient receivable management and reduced the credit cycle. Hence, despite the uncertain economic conditions, the subsidiary continued to have robust collections throughout the year. Also, the measures taken above have contributed to minimize the impact on the impairment provision recognised during the year.

Similarly, the subsidiary’s investment portfolio measured at amortised cost has been assessed using a robust ECL model with updated inputs as of the reporting date and based on the results, the subsidiary had taken adequate provisions for impairment losses. These are not material as at 31 December 2020.

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

43 Risk management (continued)

Compliance Risk

Compliance risk is the risk of an activity not being conducted in line with the applicable laws and regulations leading to reputational and/or financial losses. The Group manages compliance risk through a compliance function which is responsible for monitoring compliance of laws and regulations across the various jurisdictions in which the Group operates.

In 2015, the Bank became aware that certain US dollar payment processing activities involving Sudan may have potentially breached US sanction laws in effect at the time. The Bank has been proactively cooperating with the UAE and the US regulators in this regard and has appointed external legal advisors to assist in the review of these transactions, which occurred prior to March 2009, including compliance with US sanction laws as well as its own compliance processes. In 2018, the Bank formally submitted the findings of the review to the regulators in both the UAE and the US. The US regulators have reviewed the Bank's submission and discussions have been ongoing with the US regulators. Certain US regulators have concluded their reviews without levying any penalties and the bank is currently in negotiation in this respect with other US regulators. The Bank believes that given the sensitivity of this matter the foregoing disclosure adequately describes the current status of the negotiations with the concerned regulators.

The Group, on a continuous basis, identifies and assesses such risks and recognizes provisions, in consultation with its legal counsel, in accordance with note 3.13.

43 Risk management (continued)

Fair value measurements

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

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

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

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

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

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

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

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

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

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at 2020 AED'000	2019 AED'000	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
Other financial assets measured at FVTPL						
Quoted debt investments	**19,431**	196,516	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	**6,719**	14,990	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**796,240**	679,779	Level 2	Based on the recent similar transaction in market	None	Not Applicable
Mutual and other funds	**629,865**	599,310	Level 2	Quoted prices in secondary market.	None	Not Applicable
Unquoted equity investments	**1,112**	245	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	1,453,367	1,490,840				

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at 2020 AED'000	Fair value as at 2019 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	**459,821**	501,480	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**560,592**	561,693	Level 3	Based on the recent similar transaction in market	None	Not Applicable
Quoted debt investments	**5,910,374**	1,904,560	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	**54,949**	63,593	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
	6,985,736	3,031,326				
	8,439,103	4,522,166				

43 Risk management (continued)

Fair value measurements (continued)

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

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

	2020	2019
	AED'000	AED'000
At 1 January	**245**	55,315
Purchases	**2,505**	-
Disposals	**(1,646)**	-
Change in fair value	**8**	(55,070)
At 31 December	**1,112**	245

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

	2020	2019
	AED'000	AED'000
At 1 January	**625,286**	192,869
Purchases	**-**	563,842
Disposals/matured	**(10,215)**	(153,087)
Change in fair value	**470**	21,662
At 31 December	**615,541**	625,286

All gain and losses included in consolidated statement of comprehensive income relate to unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

43 Risk management (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values as these are substantially short term in nature and carry market rates of interest.

	Carrying amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2020					
Financial assets:					
Other financial assets measured at amortised cost	**11,000,654**	**7,600,395**	**1,556,552**	**2,169,181**	**11,326,128**
31 December 2019					
Financial assets:					
Other financial assets measured at amortised cost	10,875,153	8,628,850	1,140,947	1,327,665	11,097,462

	Carrying Amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2020					
Financial liabilities					
Medium-term notes	**9,616,042**	**5,558,668**	**-**	**4,133,034**	**9,691,702**
31 December 2019					
Financial liabilities					
Medium-term notes	11,838,757	10,034,486	-	1,970,522	12,005,008

43 Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 1% increase or decrease as at 31 December 2020 and 31 December 2019:

	Reflected in consolidated statement of profit or loss		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	**Unfavourable change AED'000**	**Favourable change AED'000**	**Unfavourable change AED'000**
31 December 2020				
Other financial assets measured at fair value	**14,534**	**(14,534)**	**69,857**	**(69,857)**
Derivatives	**1,560**	**(1,560)**	**636**	**(636)**
31 December 2019				
Other financial assets measured at fair value	14,908	(14,908)	30,313	(30,313)
Derivatives	546	(546)	58	(58)

Majority of the derivative financial instruments are back-to-back; therefore, any change to the fair value of the derivatives resulting from price input changes will have insignificant impact on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

44 Foreign restricted assets

Net assets equivalent to AED 213 million as at 31 December 2020 (31 December 2019: AED 214 million) maintained by certain branches of the Bank, operating outside the UAE, are subject to exchange control regulations of the countries in which these branches operate.

45 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2020.

46 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2020 were approved by the Board of Directors and authorised for issue on 10 February 2021.