

Integrated Report 2022

Rise every day



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Board of Directors

Chairman

H.E. Abdul Aziz Abdulla Al Ghurair

Vice Chairman

Ali Rashed Ahmad Lootah

Directors

Rashed Saif Saeed Al Jarwan Al Shamsi

Rashed Saif Ahmed Al Ghurair

John Gregory Iossifidis

Iyad Mazher Saleh Malas

Saeed Saif Ahmed Majid Al Ghurair

Chairman's Message

2022 was a landmark year for Mashreq not just in terms of financials but in terms of the company's entire brand identity.

As we look back upon a year of significant strategic and operational change at Mashreq, I am proud to note that we recorded double-digit growth across every business unit. 2022 was marked by healthy operating income, strong net profit, improved efficiency, and a very comfortable capital adequacy ratio.

Our results are particularly impressive when we consider the unprecedented nature of last year's challenges. We saw a war in Europe for the first time in decades, accompanied by soaring global inflation, severely disrupted trade routes, a rapid surge in interest rates, and lingering COVID-19 uncertainty. Yet, we delivered for our customers – through ingenuity, discipline, and a readiness to adapt.

Of course, these challenges remain – and are likely to do so for much of this year. But we are ready to face them with a new resolve and greater confidence while maintaining the customer-centric approach that is at the heart of everything we do. In 2023, we will continue to shape the future of finance through innovation, convenience, trust, and an unmatched customer experience.

Moreover, the year reaffirmed our role as a proven challenger bank that questions the status quo, innovates beyond banking, and serves as a trusted partner of its customers on their journey to new heights.

The historic launch of Rise Every Day was truly a pivotal moment. The new identity represents the very best of who we are and what we have set out to do. It stems from our firm belief in helping our clients to succeed, supporting our people in realizing their ambitions, and improving lives through hard work and innovation while delivering a best-in-class banking experience.

Our joining the UN Global Compact (UNGC), a voluntary leadership platform for the development, implementation, and disclosure of responsible business practices, was an important strategic and symbolic moment in our history. The move coincided with the implementation of a series of ESG practices and the development of a robust sustainability framework that is being deployed across the Mashreq Network.

In the Year of Sustainability, we will continue to create shared value for our stakeholders by strengthening our commitment to sustainable finance and taking steps to improve our operations across ESG metrics. Set to take place in the UAE this year, COP28 will represent a key opportunity for us to reaffirm our support for urgent and decisive climate action to protect people and the planet from the intensifying impacts of climate change.

I'd like to thank our staff for their diligence and dedication, our customers for their loyalty, and our shareholders for their support that have enabled us to stay true to our core values.

I also extend my sincere gratitude to the UAE Central Bank, regulators, and the UAE government for their continued trust as we work towards a brighter future in 2023 and beyond.

H.E. Abdul Aziz Abdulla Al Ghurair
Chairman

Group CEO Message

In 2022, Mashreq witnessed solid growth in all its business activities. This is a testament to the hard work of our team as we continue to consolidate our status in the market as a powerful digital disruptor and challenger bank.

Our operating income increased by 29.1% over the previous year to reach AED 7.5 billion. Operating profits soared by 39.2% year-on-year, our non-interest income to operating income ratio remained one of the industry's best at 39%. These positive results created a comfortable liquidity and capital position, defined by a 12.1% increase in customer deposits, which reached AED 113.8 billion by the end of the year. We also delivered healthy growth in our loan portfolio, which rose by 11% to stand at AED 90.3 billion.

During 2022, our Retail Banking Group (RBG) remained the backbone of our business, with revenues growing by 42%. The net profit of our flagship digital solutions, such as Neo and personal banking, increased by 43%, while NEOPAY grew in net profit by 37%. A true standout was NeoBiz with a whopping 289% surge. Similarly, the Corporate and Investment Banking Group (CIBG) revenues grew strongly at 37%. The International Banking Group (IBG) remained focused on executing its strategic priorities and strengthening its presence across its existing international markets, with a 43% asset growth and a 25% revenue growth.

I am pleased to note positive customer experience and customer satisfaction metrics for 2022, with our overall Net Promoter Score (NPS) reaching 49. As we looked to improve our understanding of customer experience, we created several new tools to enhance our CX approach in the last year.

On the ESG front, we were the only bank from the region to sponsor COP27 in Egypt, and the fact that we facilitated more than USD 15.5 billion of sustainable finance as of end-2022 testifies to our commitment to this cause. Declaring 2023 as the year of sustainability by the President of UAE His Highness Sheikh Mohamed bin Zayed Al Nahyan will accelerate UAE's journey towards a greener economy and will act as a perfect segue to COP 28 taking place this year in UAE, which we are looking forward to support.

Embedding sustainability in our core business also forms part of our ESG journey, with good governance and risk controls at the heart of our approach to maintaining a robust and resilient portfolio. New risk controls were deployed in 2022 to combat financial crime, which included technologies to combat money-laundering, sanctions and cybersecurity challenges.

Our success in 2022 was widely recognized across the banking sector. We earned multiple accolades, which amplifies the message that Mashreq is leading the path for the future of finance.

But none of that matters without people that are ready, willing, and able to step up to make it happen. Our global talent pool is our greatest asset, and we are committed to investing in the growth and development of our employees to equip them with the knowledge and tools to provide exceptional service to our customers. We also seek to help them build challenging and rewarding careers.

That commitment extends to every interaction between the Bank and its people – and I am delighted with the Bank's employee engagement score of 81 in 2022, which sits above the global industry standard.



In 2023, we will continue our strategic drive to develop experiences, rather than just products and services, in a way that positively impacts our clients' everyday lives.

We can all be immensely proud of our achievements in 2022, and I thank everyone who has contributed to making this an exceptional year for Mashreq.

Ahmed Abdelaal
Group CEO

Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2022

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 2022

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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 2022.

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 2022 are set out in the accompanying consolidated financial statements.

Dividend

The Board of Directors has proposed a cash dividend of 90% for the year ended 31 December 2022 at the meeting held on 30 January 2023.

Directors

The following are the Directors of the Bank as at 31 December 2022

Chairman:

H.E. Abdul Aziz Abdulla Al Ghurair

Vice Chairman:

Ali Rashed Ahmad Lootah

Directors:

Rashed Saif Saeed Al Jarwan Al Shamsi

Rashed Saif Ahmed Al Ghurair

John Gregory Iossifidis

Iyad Mazher Saleh Malas

Saeed Saif Ahmed Majid Al Ghurair

Auditors

The consolidated financial statements for the year ended 31 December 2022 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors



H.E. Abdul Aziz Abdulla Al Ghurair

Chairman

30 January 2023



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 2022, 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 2022;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

PricewaterhouseCoopers (Dubai Branch), License no. 102451
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T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

Jacques Fakhoury, Douglas O'Mahony, Murad Alnsour and Rami Sarhan are registered as practicing auditors with the UAE Ministry of Economy



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

Our audit approach

Overview

-
- | | |
|-------------------|---|
| Key Audit Matters | • Measurement of Expected Credit Losses |
|-------------------|---|
-

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

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

Key audit matters

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

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 of 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 2022: ➤ 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 the macro-economic environment. ● 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 the macro-economic environment, 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 the macro-economic environment on ECL.



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

Other information

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

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

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

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

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

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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



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

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

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

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

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



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

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

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

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

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

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Decree Law No. 32 of 2021, we report that:

- (i) we have obtained all the information we considered necessary for the purposes of our audit;
- (ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Decree Law No. 32 of 2021;
- (iii) the Group has maintained proper books of account;
- (iv) the financial information included in the Directors' report is consistent with the books of account of the Group;
- (v) note 7 to the consolidated financial statements discloses the shares purchased by the Group during the year ended 31 December 2022;
- (vi) note 37 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;



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

Report on other legal and regulatory requirements (continued)

- (vii) Note 32 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2022; and
- (viii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2022 any of the applicable provisions of the UAE Federal Decree Law No. 32 of 2021, or in respect of the Bank, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2022.

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
30 January 2023

A handwritten signature in blue ink, appearing to read 'Murad Alnsour', with a long horizontal stroke extending to the left.

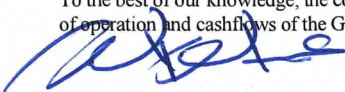
Murad Alnsour
Registered Auditor Number: 1301
Place: Dubai, United Arab Emirates

Mashreqbank PSC Group

Consolidated statement of financial position

		As at 31 December			
		2022		2021	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	31,435,930	8,558,652	17,507,751	4,766,608
Deposits and balances due from banks	6	28,846,448	7,853,648	28,805,095	7,842,389
Other financial assets measured at fair value	7	10,429,765	2,839,577	16,441,123	4,476,211
Other financial assets measured at amortised cost	7	16,422,947	4,471,262	10,277,824	2,798,210
Loans and advances measured at amortised cost	8	75,630,344	20,590,891	66,432,570	18,086,733
Islamic financing and investment products measured at amortised cost	9	14,672,897	3,994,799	15,053,454	4,098,408
Acceptances		9,310,974	2,534,978	14,340,671	3,904,348
Other assets	10	6,799,304	1,851,158	3,290,085	895,749
Reinsurance contract assets	20	3,128,009	851,622	2,699,966	735,085
Investment in associate		43,633	11,879	34,809	9,477
Investment properties	11	464,840	126,556	462,829	126,008
Property and equipment	12	1,395,485	379,930	1,426,096	388,265
Intangible assets	13	230,667	62,802	281,336	76,596
Total assets		198,811,243	54,127,754	177,053,609	48,204,087
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	14	28,399,456	7,731,951	19,566,486	5,327,113
Repurchase agreements with banks	15	1,926,182	524,417	2,729,147	743,029
Customers' deposits	16	98,827,322	26,906,431	87,150,902	23,727,444
Islamic customers' deposits	17	14,978,941	4,078,122	14,332,087	3,902,011
Acceptances		9,310,974	2,534,978	14,340,671	3,904,348
Other liabilities	18	8,253,044	2,246,949	6,028,308	1,641,249
Medium-term loans	19	5,223,565	1,422,152	7,315,119	1,991,593
Subordinated debt	47	1,831,027	498,510	-	-
Insurance contract liabilities	20	5,642,093	1,536,099	4,566,602	1,243,290
Total liabilities		174,392,604	47,479,609	156,029,322	42,480,077
EQUITY					
Capital and reserves					
Issued and paid up capital	21(a)	2,006,098	546,174	2,006,098	546,174
Tier 1 capital notes	46	1,101,900	300,000	-	-
Statutory and legal reserves	21(b)	1,027,494	279,742	1,012,320	275,611
General reserve	21(c)	312,000	84,944	312,000	84,944
Currency translation reserve	21(d)	(130,804)	(35,612)	(116,116)	(31,613)
Investments revaluation reserve	21(e)	(1,813,781)	(493,815)	(547,489)	(149,058)
Retained earnings		21,038,417	5,727,857	17,561,412	4,781,218
Equity attributable to owners of the Parent including noteholders of the Group					
		23,541,324	6,409,290	20,228,225	5,507,276
Non-controlling interests	22	877,315	238,855	796,062	216,734
Total equity		24,418,639	6,648,145	21,024,287	5,724,010
Total liabilities and equity		198,811,243	54,127,754	177,053,609	48,204,087

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			
		2022		2021	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Interest income	24	6,414,941	1,746,513	4,251,824	1,157,589
Income from Islamic financing and investment products	25	671,640	182,859	475,253	129,391
Total interest income and income from Islamic financing and investment products		7,086,581	1,929,372	4,727,077	1,286,980
Interest expense	26	(2,254,895)	(613,911)	(1,505,704)	(409,939)
Distribution to depositors – Islamic products	27	(259,728)	(70,713)	(175,884)	(47,886)
Net interest income and income from Islamic products net of distribution to depositors		4,571,958	1,244,748	3,045,489	829,155
Fee and commission income	28	4,044,130	1,101,043	3,418,086	930,598
Fee and commission expenses	28	(2,302,954)	(626,995)	(1,841,287)	(501,303)
Net fee and commission income		1,741,176	474,048	1,576,799	429,295
Net investment income	29	91,894	25,018	176,807	48,137
Other income, net	30	1,090,991	297,030	1,006,977	274,157
Operating income		7,496,019	2,040,844	5,806,072	1,580,744
General and administrative expenses	32	(3,066,256)	(834,810)	(2,622,957)	(714,119)
Operating profit before impairment		4,429,763	1,206,034	3,183,115	866,625
Allowances for impairment, net	31	(497,478)	(135,442)	(2,058,626)	(560,475)
Profit before tax		3,932,285	1,070,592	1,124,489	306,150
Tax expense	45	(146,088)	(39,773)	(48,778)	(13,280)
Profit for the year		3,786,197	1,030,819	1,075,711	292,870
Attributable to:					
Owners of the Parent		3,706,293	1,009,064	1,002,203	272,857
Non-controlling interests		79,904	21,755	73,508	20,013
		3,786,197	1,030,819	1,075,711	292,870
Earnings per share	33	AED 18.48	USD 5.03	AED 5.00	USD 1.36

Mashreqbank PSC Group

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2022		2021	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Profit for the year	3,786,197	1,030,819	1,075,711	292,870
Other comprehensive income/(loss)				
<i><u>Items that will not be reclassified subsequently to profit or loss:</u></i>				
Changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments) [Note 7(k)]	83,739	22,799	58,631	15,963
<i><u>Items that may be reclassified subsequently to profit or loss:</u></i>				
Changes in currency translation reserve	8,745	2,381	(23,150)	(6,303)
Changes in fair value of financial assets measured at fair value through other comprehensive income (debt instruments) [Note 7(k)]	(1,352,755)	(368,297)	(232,616)	(63,332)
Gain on hedging instruments designated as hedges of net investment in foreign operations	3,282	894	(1,586)	(432)
Cash flow hedges - fair value loss arising during the year [Note 21(f)]	-	-	437	120
Total other comprehensive loss for the year	(1,256,989)	(342,223)	(198,284)	(53,984)
Total comprehensive income for the year	2,529,208	688,596	877,427	238,886
Attributable to:				
Owners of the Parent	2,411,809	656,633	791,895	215,599
Non-controlling interests	117,399	31,963	85,532	23,287
	2,529,208	688,596	877,427	238,886

Mashreqbank PSC Group

Consolidated statement of changes in equity

	Issued and paid up capital AED'000	Tier 1 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 including noteholders of the Group AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 1 January 2021	1,775,308	-	912,099	312,000	(98,332)	(358,088)	(437)	16,888,178	19,430,728	757,680	20,188,408
Profit for the year ended 31 December 2021	-	-	-	-	-	-	-	1,002,203	1,002,203	73,508	1,075,711
Other comprehensive loss/(income) for the year	-	-	-	-	(17,784)	(192,962)	437	-	(210,309)	12,024	(198,285)
Total comprehensive income/(loss) for the year	-	-	-	-	(17,784)	(192,962)	437	1,002,203	791,894	85,532	877,426
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	-	3,561	-	(3,561)	-	-	-
Transfer to statutory and legal reserves	-	-	100,221	-	-	-	-	(100,221)	-	-	-
Bonus shares issued during the year	230,790	-	-	-	-	-	-	(230,790)	-	-	-
Transaction with common control entity	-	-	-	-	-	-	-	5,603	5,603	-	5,603
Transaction with non-controlling interest (NCI) (Note 22)	-	-	-	-	-	-	-	-	-	(14,325)	(14,325)
Payment of dividends (Note 22)	-	-	-	-	-	-	-	-	-	(32,825)	(32,825)
Balance at 31 December 2021	2,006,098	-	1,012,320	312,000	(116,116)	(547,489)	-	17,561,412	20,228,225	796,062	21,024,287
Profit for the year ended 31 December 2022	-	-	-	-	-	-	-	3,706,293	3,706,293	79,904	3,786,197
Other comprehensive (loss)/income for the year	-	-	-	-	(14,688)	(1,279,796)	-	-	(1,294,484)	37,495	(1,256,989)
Total comprehensive income for the year	-	-	-	-	(14,688)	(1,279,796)	-	3,706,293	2,411,809	117,399	2,529,208
Issuance of Tier 1 capital	-	1,101,900	-	-	-	-	-	-	1,101,900	-	1,101,900
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	-	13,504	-	(13,504)	-	-	-
Transfer to statutory and legal reserves	-	-	15,174	-	-	-	-	(15,174)	-	-	-
Payment of dividends (Note 22)	-	-	-	-	-	-	-	(200,610)	(200,610)	(32,826)	(233,436)
Transaction with NCI	-	-	-	-	-	-	-	-	-	(3,320)	(3,320)
Balance at 31 December 2022	2,006,098	1,101,900	1,027,494	312,000	(130,804)	(1,813,781)	-	21,038,417	23,541,324	877,315	24,418,639

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

Mashreqbank PSC Group

Consolidated statement of cash flows

	Notes	For the year ended 31 December			
		2022		2021	
		AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from operating activities					
Profit before taxation for the year		3,932,285	1,070,592	1,124,489	306,150
Adjustments for:					
Depreciation and amortisation	32	329,649	89,749	255,569	69,580
Allowances for impairment, net	31	497,478	135,442	2,058,626	560,475
(Gain)/loss on disposal of property and equipment	30	(341)	(93)	3,447	939
Unrealised loss/(gain) on other financial assets held at FVTPL	29	36,119	9,834	(8,521)	(2,320)
Fair value adjustments of investment properties	30	(2,011)	(548)	(13,114)	(3,571)
Net realized gain from sale of other financial assets measured at FVTPL	29	(38,757)	(10,552)	(28,305)	(7,706)
Dividend income from other financial assets measured at FVTOCI	29	(34,615)	(9,424)	(21,337)	(5,809)
Net realised gain from sale of other financial assets measured at amortised cost/FVTOCI	29	(53,783)	(14,643)	(117,603)	(32,018)
Share of loss/(gain) from associate		1,280	348	(7,090)	(1,930)
Unrealised gain on derivatives	30	(58,612)	(15,958)	(30,724)	(8,365)
Loss from sale of subsidiary	43	25,960	7,068		
Operating cash flows before tax paid and changes in operating assets and liabilities		4,634,652	1,261,815	3,215,437	875,425
Tax paid		(146,088)	(39,773)	(48,778)	(13,280)
Changes in operating assets and liabilities					
(Increase)/decrease in deposits with central banks		(766,513)	(208,689)	4,363,482	1,187,989
Decrease/(increase) in deposits and balances due from banks maturing after three months		4,003,557	1,089,996	(4,029,531)	(1,097,068)
Increase in loans and advances measured at amortised cost		(9,424,717)	(2,565,945)	(10,926,600)	(2,974,844)
Decrease/(increase) in Islamic financing and investment products measured at amortised cost		453,921	123,583	(984,092)	(267,926)
(Increase)/decrease in reinsurance assets		(428,043)	(116,538)	191,954	52,261
(Increase)/decrease in other assets		(3,450,608)	(939,452)	219,532	59,769
Increase in financial assets carried at FVTPL		(376,172)	(102,415)	(783,253)	(213,246)
(Decrease)/increase in repurchase agreements with banks		(802,965)	(218,613)	439,424	119,636
Increase in customers' deposits		11,676,420	3,178,987	10,774,929	2,933,550
Increase in Islamic customers' deposits		646,854	176,110	2,447,522	666,356
Increase in deposits and balances due to banks		8,832,970	2,404,838	4,722,106	1,285,626
Increase/(decrease) in insurance contract liabilities		1,075,491	292,810	(181,177)	(49,327)
Increase in other liabilities		1,881,397	512,224	120,435	32,789
Net cash generated from operating activities		17,810,156	4,848,938	9,541,390	2,597,710

Mashreqbank PSC Group

Consolidated statement of cash flows (continued)

	Notes	For the year ended 31 December			
		2022		2021	
		AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	12	(146,032)	(39,758)	(129,216)	(35,180)
Purchase on intangible assets	13	(130,282)	(35,470)	(82,298)	(22,406)
Proceeds from sale of property and equipment		27,384	7,456	1,441	393
Purchase of other financial assets measured at fair value or amortised cost		(47,397,026)	(12,904,173)	(40,877,370)	(11,129,151)
Proceeds from sale of other financial assets measured at fair value or amortised cost		46,343,690	12,617,395	34,330,239	9,346,648
Dividend income from other financial assets measured at FVTOCI	29	34,615	9,424	21,337	5,809
Investment in associate		(8,824)	(2,403)	(13,813)	(3,761)
Disposal of subsidiary	43	50,183	13,663		
Net cash used in investing activities		(1,226,292)	(333,866)	(6,749,680)	(1,837,648)
Cash flows from financing activities					
Transaction with NCI		(3,320)	(904)	(14,325)	(3,900)
Dividend paid		(233,436)	(63,555)	(32,825)	(8,937)
Medium term notes issued		139,155	37,886	-	-
Medium term notes redeemed		(2,230,710)	(607,326)	(2,300,922)	(626,442)
Subordinated notes issued		1,831,027	498,510		
Issuance of Tier 1 capital notes		1,101,900	300,000		
Net cash generated from/(used in) financing activities		604,616	164,611	(2,348,072)	(639,279)
Net increase in cash and cash equivalents		17,188,480	4,679,683	443,638	120,783
Net foreign exchange difference		14,688	3,999	17,784	4,842
Cash and cash equivalents at 1 January		21,302,038	5,799,629	20,840,616	5,674,004
Cash and cash equivalents at 31 December	35	38,505,206	10,483,311	21,302,038	5,799,629

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022

1 General information

Mashreqbank PSC (the “Bank”) was incorporated in the Emirate of Dubai in 1967 under a decree issued by The Ruler of Dubai. The Bank 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 2022, 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.

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

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022

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

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

IFRIC Agenda decision – Lessor forgiveness of lease payments (IFRS 9 and IFRS 16)

In October 2022, the IASB finalised the agenda decision approved by the IFRS Interpretation Committee (IFRS IC) on ‘Lessor Forgiveness of Lease Payments (IFRS 9 and IFRS 16)’. The agenda decision addresses the accounting from the perspective of the lessor, and in particular:

- how the expected credit loss (‘ECL’) model in IFRS 9 should be applied to the operating lease receivable when the lessor expects to forgive payments due from the lessee under the lease contract before the rent concession is granted.
- whether to apply the derecognition requirements in IFRS 9 or the lease modification requirements in IFRS 16 when accounting for the rent concession.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

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

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after
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IFRS 17, 'Insurance contracts' - On 18 May 2017, the IASB finished its long-standing project to develop an accounting standard on insurance contracts and published IFRS 17, 'Insurance Contracts'. IFRS 17 replaces IFRS 4, which currently permits a wide variety of practices. IFRS 17 will fundamentally change the accounting by all entities that issue insurance contracts and investment contracts with discretionary participation features. The standard applies to annual periods beginning on or after 1 January 2023, with earlier application permitted if IFRS 15, 'Revenue from contracts with customers' and IFRS 9, 'Financial instruments' are also applied. IFRS 17 requires a current measurement model, where estimates are remeasured in each reporting period. The measurement is based on the building blocks of discounted, probability-weighted cash flows, a risk adjustment and a contractual service margin ("CSM") representing the unearned profit of the contract. A simplified premium allocation approach is permitted for the liability for the remaining coverage if it provides a measurement that is not materially different from the general model or if the coverage period is one year or less. However, claims incurred will need to be measured based on the building blocks of discounted, risk-adjusted, probability weighted cash flows.	1 January 2023
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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. Refer to note 43 for transition impact.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 - The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The impact of the above amendments is expected to be immaterial on the consolidated financial statements of the Group.	1 January 2023
• Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction - These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023
• Amendment to IFRS 16 – Leases on sale and leaseback- These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.	Annual periods beginning on or after 1 January 2024
• Amendment to IAS 1 – Noncurrent liabilities with covenants- These amendments clarify how conditions with which an entity must comply within twelve months after the reporting period affect the classification of a liability.	Annual periods beginning on or after 1 January 2024

There are no other relevant applicable new standards and amendments to published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2023 that would be expected to have a material impact on the consolidated financial statements of the Group.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies

3.1 Statement of compliance

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

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Group is in the process of complying with the provisions of the UAE Federal Decree Law No 32 of 2021.

3.2 Basis of preparation

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

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

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

The accounting policies used in the preparation of this consolidated financial statements are consistent with those audited annual consolidated financial statements for the year ended 31 December 2021.

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation

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

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

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

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

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries

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

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

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

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

Business combinations

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Business combinations (continued)

The excess of the

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

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

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

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

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

Investment in joint venture

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates and joint ventures are recognised as a reduction in the carrying amount of the investment.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Investment in joint venture (continued)

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Company does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

Unrealised gains on transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in these entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of equity accounted investees have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, any retained interest in the joint venture or business is remeasured to its fair value at the date when control is lost, with the change in the carrying amount recognised in the statement of comprehensive income. The fair value becomes the initial carrying amount for the purposes of subsequent accounting for the retained interest as a joint venture. In addition, any amounts previously recognised in other comprehensive income in respect of that entity or business are accounted for as if the related assets or liabilities have been directly disposed off. If the ownership in a joint venture is reduced but joint control is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to the statement of profit or loss where appropriate.

3.4 Goodwill

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition

(a) Interest income and expense

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

(b) Income from Islamic financing and investments products

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

(c) Fee and commission income and expenses

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

- (i) Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees. Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognised over the commitment period on a straight-line basis.
- (ii) Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(d) Dividend income

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition (continued)

(e) Insurance contracts revenue and insurance commission income

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

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

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

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

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

(g) Rental income

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

3.6 Leasing

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.6 Leasing (continued)

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

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

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

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

3.7 Foreign currencies

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.7 Foreign currencies (continued)

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

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.8 Borrowing costs

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

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

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

3.9 Investment properties

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.10 Property and equipment

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

Freehold land and capital work in progress are not depreciated.

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

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.11 Impairment of non-financial assets

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

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

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

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

3.12 Intangible assets

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.13 Provisions

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

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

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

3.14 Financial instruments

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

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

- (a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- (b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

3.14.1 Financial assets

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

- (i) Classification of financial assets

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

Debt instruments:

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and Interest ('SPPI'), and that are not designated at fair value through profit or loss (FVTPL), are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured as described in Note 43.
- **Fair value through other comprehensive income (FVTOCI):** financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at FVTOCI. Movements in carrying amount are taken through Other Comprehensive Income (OCI), except for the recognition of impairment gains and losses, interest revenue and foreign exchange gains and losses on the instruments' amortised cost which are recognized in profit or loss. When the financial asset is derecognized, the cumulative gain or loss previously recognized in OCI is reclassified from equity to profit or loss and recognized in 'Net Investment Income'.
- **Fair value through profit or loss (FVTPL):** Assets that do not meet the criteria for amortised cost or FVTOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of profit or loss within 'Net investment income' in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they were presented separately in 'Net investment income'.

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

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

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

Amortised cost and effective interest method

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

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

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

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

(ii) Impairment of financial assets

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans (continued)

Derecognition other than on a modification

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

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

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

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

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

3.14.2 Financial liabilities

Classification and subsequent measurement

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities (continued)

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

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

Derecognition

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

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

3.14.3 Financial guarantee contracts and loan commitments

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.4 Foreign exchange gains and losses

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

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

3.15 Offsetting of financial assets and liabilities

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

3.16 Derivative financial instruments

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments (continued)

(a) Embedded derivatives

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

3.17 Hedge accounting

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

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

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

Fair value hedges

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Cash flow hedges

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

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

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

Hedges of net investments in foreign operations

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts

3.18.1 Product classification

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

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

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

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

- that are likely to be a significant portion of the total contractual benefits;
- whose amount or timing is contractually at the discretion of the insurer;
- that are contractually based on:
 - (i) the performance of a specified pool of contracts or a specified type of contract,
 - (ii) realised/unrealised investment returns on a specified pool of assets held by the issuer or,
 - (iii) the profit or loss of the Company, fund or other entity that issues that contract.

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

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

3.18.2 Recognition and measurement

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

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

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

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

3.18.4 Life assurance contracts

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

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

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

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

3.18.5 Reinsurance contracts

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

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

(b) Additional reserve

The additional reserve comprises of the provisions made for:

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

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

(c) Life assurance fund

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

(d) Unit-linked liabilities

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(e) Outstanding claims

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

Deferred Policy Acquisition Costs (DAC)

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

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

3.18.7 Salvage and subrogation reimbursements

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

3.18.8 Liability adequacy test

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.19 Taxation

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

3.20 Islamic financing and investment products

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

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

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

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

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

Ijarah

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Istisna'

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

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

Mudarabah

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

Wakalah

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

(ii) Accounting policy

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy

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

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

Murabaha

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

Ijarah

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

Mudarabah

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

Wakalah

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

(iv) Islamic customers' deposits and distributions to depositors

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(v) Profit calculation, asset allocation, mechanics of equalization of returns investment account holders

- The Group has invested all the funds generated from Investment Account Holders in the Financing done by way of Murabaha & Ijarah Structures, and the returns are managed by the Bank in a central profit pool. Subsequently the profits are allocated to Investment Account Holders using the Internal Shariah Supervisory Committee approved profit allocation mechanism for Investment Account Holders
- Profit Equalization Reserve: The Bank maintains a Profit Equalization Reserve (PER) for the purpose of smoothening the returns to the Mudarabah account holders. The PER is deducted from Mudarabah income before deduction of the Bank's share.
- Investment Risk Reserve: The Bank maintains an Investment Risk Reserve (IRR) for the purpose of protecting the Mudarabah account holders from any investment losses in the future. The IRR is deducted from Mudarabah income after deduction of the Bank's share.

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 2022 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.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

3 Summary of significant accounting policies (continued)

3.23 Cash and cash equivalents

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

4 Critical accounting judgements and key sources of estimation uncertainty

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

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

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

4.1 Measurement of the expected credit loss allowance

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

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

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

4.2 Fair value of financial instruments

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

4.3 Derivative financial instruments

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

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

4.4 The ultimate liability arising from claims made under insurance contracts

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

4.5 Classification of the Equity Tier 1 instrument under IAS 32

The Bank has issued Additional Tier 1 (AT1) capital securities listed on the Luxembourg Stock Exchange, which have been classified as equity in accordance with IAS 32: Financial Instruments – Classification. The key features of the instruments are as follows:

- no fixed date of maturity;
- payment of interest and/or capital is solely at the discretion of the Bank;
- the instruments are subordinated and rank just above the ordinary shareholders; and
- these securities also allow the Bank to write-down (in whole or in part) any amounts due to the holders in the event of non-viability with the approval of CBUAE.

The determination of equity classification of these instruments requires significant judgement as certain clauses, particularly the "Events of Default", require interpretation. The Directors, after factoring in the clauses relating to the write-down, non-payment and subordination in the instrument offering document consider that the Bank will not reach the point of insolvency before a write-down is affected due to a non-viability event. Accordingly, such clauses were assessed for the purpose of determining the debt vs equity classification and appropriate independent advice was obtained in forming judgement around this matter.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

5 Cash and balances with central banks

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

	2022 AED'000	2021 AED'000
Cash on hand	1,249,478	1,027,306
Balances with central banks:		
Current accounts and other balances	24,413,114	9,223,621
Statutory deposits	5,223,338	4,456,824
Certificates of deposit	550,000	2,800,000
	31,435,930	17,507,751

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

	2022 AED'000	2021 AED'000
Within the UAE	13,859,877	10,336,038
Outside the UAE	17,576,053	7,171,713
	31,435,930	17,507,751

(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 4.5% (31 December 2021: 0.18%) per annum.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

6 Deposits and balances due from banks

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

	2022 AED'000	2021 AED'000
Demand	1,787,939	1,256,536
Time	27,179,445	27,716,058
	28,967,384	28,972,594
Less: Allowance for impairment	(120,936)	(167,499)
	28,846,448	28,805,095

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

	2022 AED'000	2021 AED'000
Banks within the UAE	5,631,990	4,391,518
Banks outside the UAE	23,335,394	24,581,076
	28,967,384	28,972,594
Less: Allowance for impairment	(120,936)	(167,499)
	28,846,448	28,805,095

(c) Allowance for impairment movement:

	2022 AED'000	2021 AED'000
At beginning of the year	167,499	166,122
Charge during the year (Note 31)	(3,408)	(4,404)
Interest in suspense	1,878	5,495
Exchange rate and other adjustments	(451)	286
Written off during the year	(44,582)	-
At end of the year	120,936	167,499

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

7 Other financial assets

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

	2022 AED'000	2021 AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit and loss (FVTPL)		
Debt securities	1,348,137	1,548,129
Equities		
<i>Quoted</i>	16,667	37,668
<i>Unquoted</i>	707	1,113
Funds	1,286,743	686,534
	<u>2,652,254</u>	<u>2,273,444</u>
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	6,934,735	13,480,719
Equities		
<i>Quoted</i>	699,587	577,857
<i>Unquoted</i>	63,117	53,589
Funds	80,072	55,514
	<u>7,777,511</u>	<u>14,167,679</u>
Total other financial assets measured at fair value (A)	<u>10,429,765</u>	<u>16,441,123</u>
(iii) Other financial assets measured at amortised cost		
Debt securities	16,451,362	10,302,332
Less: Allowance for impairment	<u>(28,415)</u>	<u>(24,508)</u>
Total other financial assets measured at amortised cost (B)	<u>16,422,947</u>	<u>10,277,824</u>
Total other financial assets [(A) +(B)]	<u>26,852,712</u>	<u>26,718,947</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

7 Other financial assets (continued)

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

	2022 AED'000	2021 AED'000
Within the UAE	12,568,304	10,908,883
Outside the UAE	14,312,823	15,834,572
	<u>26,881,127</u>	<u>26,743,455</u>
Less: Allowance for impairment	(28,415)	(24,508)
	<u>26,852,712</u>	<u>26,718,947</u>

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

	2022 AED'000	2021 AED'000
Government and public sector	14,602,907	15,988,557
Commercial and business	1,194,980	1,402,840
Financial institutions	11,021,809	9,284,617
Other	33,016	42,933
	<u>26,852,712</u>	<u>26,718,947</u>

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

	2022 AED'000	2021 AED'000
At the beginning of the year	24,508	21,229
Charge/(reversal) during the year (Note 31)	3,946	3,270
Exchange rate and other adjustments	(39)	9
At end of the year	<u>28,415</u>	<u>24,508</u>

(e) The fair value of other financial assets measured at amortised cost amounted to AED 16.05 billion as of 31 December 2022 (31 December 2021: AED 10.47 billion) (Note 43).

(f) At 31 December 2022, certain financial assets measured at amortised cost, financial assets measured at fair value included debt securities with an aggregate carrying value of AED 1,497 million (fair value of AED 1,472 million) [31 December 2021: carrying value of AED 2,890 million (fair value of AED 2,905 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 1,305 million (31 December 2021: AED 2,288 million).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

7 Other financial assets (continued)

- (g) During the year ended 31 December 2022, the Group has reviewed its portfolio and sold certain other financial assets measured at amortised cost, resulting in a loss of AED 1.1 million (period ended 31 December 2021: gain of AED 51 million) on the sale.
- (h) As of 31 December 2022, 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 2022 to 31 December 2022, dividends received from financial assets measured at FVTOCI amounting to AED 34.6 million (period ended 31 December 2021: AED 21 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.
- (j) As of 31 December 2022, change in fair value of other financial assets measured at FVTPL resulted in loss of AED 36 million (31 December 2021: a gain of AED 9 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).
- (k) As of 31 December 2022, change in fair value of other financial assets measured at FVTOCI resulted in a loss of AED 1,269 million (31 December 2021: a loss of AED 174 million) and was recognised in the consolidated statement of comprehensive income
- (l) During the year ended 31 December 2022, the Group purchased and disposed equity shares amounting to AED 818 million (31 December 2021 : AED 1,526 million) and AED 778 million (31 December 2021 : AED 1,447 million) respectively.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

8 Loans and advances measured at amortised cost

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

	2022	2021
	AED'000	AED'000
Loans	72,164,096	63,354,455
Overdrafts	4,655,624	6,465,665
Credit cards	2,277,205	1,915,726
Others	845,785	790,801
Total	79,942,710	72,526,647
Less: Allowance for impairment	(4,312,366)	(6,094,077)
	75,630,344	66,432,570

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

	2022	2021
	AED'000	AED'000
Manufacturing	16,506,087	10,789,962
Construction	5,722,816	7,023,284
Trade	14,430,399	13,921,413
Transport and communication	3,517,480	3,501,279
Services	9,901,662	7,633,645
Financial institutions	3,092,482	3,147,558
Personal	8,462,730	8,196,625
Residential mortgage	8,805,210	6,819,805
Government and related enterprises	9,503,844	11,493,076
	79,942,710	72,526,647
Less: Allowance for impairment	(4,312,366)	(6,094,077)
	75,630,344	66,432,570

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

8 Loans and advances measured at amortised cost (continued)

(c) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books which have been fully provided. Interest is accrued on most of these accounts for litigation purposes only. As at 31 December 2022 and 2021, legal proceedings are pursued for some of these accounts by the Group in the normal course of business.

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

	2022 AED'000	2021 AED'000
At beginning of the year	6,094,077	5,403,626
Impairment allowance for the year (Note 31)	298,051	1,529,908
Interest in suspense	211,319	150,359
Exchange rate and other adjustments	(49,525)	39,720
Written off during the year	(2,241,556)	(1,029,536)
At end of the year	<u>4,312,366</u>	<u>6,094,077</u>

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

(f) At 31 December 2022, certain loans and advances measured at amortised cost with an aggregate carrying value of AED 1,059 million (fair value of AED 1,048 million) [31 December 2021: carrying value of AED 1,332 million (fair value of AED 945 million)] were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 497 million (31 December 2021: AED 441 million).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

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:

	2022 AED'000	2021 AED'000
<u>Financing</u>		
Murabaha	12,970,564	11,403,396
Ijarah	4,380,730	5,344,195
	<u>17,351,294</u>	<u>16,747,591</u>
<u>Investment</u>		
Wakalah	372,294	464,826
	<u>372,294</u>	<u>464,826</u>
Total	17,723,588	17,212,417
Less: Unearned income	(2,581,225)	(1,532,000)
Allowance for impairment	(469,466)	(626,963)
	<u>14,672,897</u>	<u>15,053,454</u>

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

	2022 AED'000	2021 AED'000
Manufacturing	1,231,306	1,878,933
Construction	1,103,908	1,875,799
Trade	849,986	1,001,147
Transport and communication	121,458	291,898
Services	2,683,957	2,692,387
Financial institutions	957,899	1,098,307
Personal	6,840,636	4,331,202
Residential mortgage	1,386,627	1,202,193
Government and related enterprises	2,547,811	2,840,551
Total	17,723,588	17,212,417
Less: Unearned income	(2,581,225)	(1,532,000)
Allowance for impairment	(469,466)	(626,963)
	<u>14,672,897</u>	<u>15,053,454</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

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

(c) Allowance for impairment movement:

	2022 AED'000	2021 AED'000
At beginning of the year	626,963	407,330
Impairment allowance for the year (Note 31)	(71,452)	203,822
Profit in suspense	23,102	16,042
Exchange and other adjustment	71,014	-
Written off during the year	(180,161)	(231)
At end of the year	<u>469,466</u>	<u>626,963</u>

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

10 Other assets

	2022 AED'000	2021 AED'000
Interest receivable	401,445	296,794
Property acquired in settlement of debts*	286,830	86,055
Prepayments	126,933	111,284
Positive fair value of derivatives (Note 41)	2,623,722	1,028,186
Insurance related receivables (net) **	698,638	562,465
Insurance related deferred acquisition costs	180,952	150,381
Credit card related receivables	526,003	228,299
Taxes paid in advance	102,345	109,041
Commission / income receivable	45,475	36,155
Advances to suppliers / vendors	158,179	241,748
Others	1,648,782	437,677
	<u>6,799,304</u>	<u>3,290,085</u>

* As of 31 December 2022, property acquired in settlement of debts includes property with a book value of AED 287 million (31 December 2021: AED 202 million) against which a provision of AED 123 million is held (31 December 2021: AED 116 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 2022, the Group has recorded a provision of AED 434 million (31 December 2021: AED 439 million) against insurance related receivables.

11 Investment properties

	2022 AED'000	2021 AED'000
At fair value		
At beginning of the year	462,829	449,715
Change in fair value during the year (Note 30)	2,011	13,114
At end of the year	<u>464,840</u>	<u>462,829</u>

All of the Group's investment properties are held under freehold interest and located in the UAE. As at 31 December 2022 and 31 December 2021 these were classified as level 3 in the fair value hierarchy.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

11 Investment properties (continued)

Valuation processes

The fair value of investment properties as at 31 December 2022 has been arrived at on the basis of valuations carried out by third party valuers and also are in accordance with the Royal Institute of Chartered Surveyor (RICS) Valuation Standards. The valuers performing the valuation have necessary qualifications, skills, understanding and knowledge to undertake the valuation competently and possess recent market experience in the valuation of properties in the United Arab Emirates. The valuers are not related to the Group. The fair value of the Group's investment properties is based on unobservable market inputs, i.e. Level 3. Management has assessed the fair value of investment properties and the carrying value approximates the fair value as at 31 December 2022.

Valuation techniques underlying management's estimation of fair value

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

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

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

For the sales comparison method, if the prices of the comparable properties were to increase / decrease by 1% and considering all other assumptions to remain constant, the fair value would increase / decrease by +1%/-1% (31 December 2021: the fair value would increase / decrease by +1%/-1%). For the DCF method, if the discount rates were to increase / decrease by 0.25% and considering all other assumptions to remain constant, the fair value would increase / decrease by 2.6% / 2.4% respectively (31 December 2021: the fair value would increase / decrease by +3%/-3%). As at 31 December 2022, for the residual method, if the capitalization rates were to increase / decrease by 0.25% and considering all other assumptions to remain constant, the fair value would increase / decrease by +4%/-4%.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

12 Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and others AED'000	Right-of-use assets AED'000	Capital work-in- progress AED'000	Total AED'000
Cost						
At 1 January 2021	1,156,507	443,886	226,231	195,076	44,828	2,066,528
Additions during the year	-	30,304	21,123	26,222	51,567	129,216
Transfers	32,525	8,502	2,100	-	(43,127)	-
Disposals/write-offs/elimination	-	(64,720)	(17,118)	(52,798)	(318)	(134,954)
At 31 December 2021	1,189,032	417,972	232,336	168,500	52,950	2,060,790
Additions during the year	177	31,707	40,135	42,089	31,924	146,032
Transfers	3,945	1,512	(818)	-	(4,639)	-
Disposals/write-offs/elimination	(2,730)	(36,936)	(23,266)	(60,212)	-	(123,144)
At 31 December 2022	1,190,424	414,255	248,387	150,377	80,235	2,083,678
Accumulated depreciation and impairment						
At 1 January 2021	223,224	227,928	44,016	104,591	-	599,759
Charge for the year (Note 32)	30,018	50,761	32,171	47,765	-	160,715
Disposals/write-offs/elimination	-	(58,948)	(12,667)	(54,165)	-	(125,780)
At 31 December 2021	253,242	219,741	63,520	98,191	-	634,694
Charge for the year (Note 32)	29,906	47,779	33,441	38,160	-	149,286
Disposals/write-offs/elimination	(1,826)	(30,127)	(17,068)	(46,766)	-	(95,787)
At 31 December 2022	281,322	237,393	79,893	89,585	-	688,193
Carrying amount						
At 31 December 2022	909,102	176,862	168,494	60,792	80,235	1,395,485
At 31 December 2021	935,790	198,231	168,816	70,309	52,950	1,426,096

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

13 Intangible assets

	Software AED'000
Cost	
At 1 January 2021	600,900
Additions during the year	82,298
Disposals/write-offs/elimination	<u>(13,544)</u>
At 31 December 2021	669,654
Additions during the year	130,282
Disposals/write-offs/elimination	<u>(312,289)</u>
At 31 December 2022	<u>487,647</u>
Accumulated depreciation and impairment	
At 1 January 2021	306,458
Charge for the year (Note 32)	94,854
Disposals/write-offs/elimination	<u>(12,994)</u>
At 31 December 2021	388,318
Charge for the year (Note 32)	124,202
Disposals/write-offs/elimination	<u>(255,540)</u>
At 31 December 2022	<u>256,980</u>
Carrying amount	
At 31 December 2022	<u>230,667</u>
At 31 December 2021	<u>281,336</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

14 Deposits and balances due to banks

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

	2022 AED'000	2021 AED'000
Time	16,559,285	13,947,840
Demand	8,805,301	3,192,445
Overnight	3,034,870	2,426,201
	<u>28,399,456</u>	<u>19,566,486</u>

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

	2022 AED'000	2021 AED'000
Banks within the UAE	4,443,908	1,761,073
Banks outside the UAE	23,955,548	17,805,413
	<u>28,399,456</u>	<u>19,566,486</u>

15 Repurchase agreements with banks

	2022 AED'000	2021 AED'000
Repurchase agreements	<u>1,926,182</u>	<u>2,729,147</u>

The above repurchase agreements with banks are at an average interest rate of 3.87% (31 December 2021: 1.14%) per annum. Collateral provided as security against these Repo borrowings are disclosed in Note 7(f) and 8(f) to the consolidated financial statements.

16 Customers' deposits

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

	2022 AED'000	2021 AED'000
Current and other accounts	62,482,606	50,248,066
Saving accounts	5,786,550	6,109,303
Time deposits	30,558,166	30,793,533
	<u>98,827,322</u>	<u>87,150,902</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

16 Customers' deposits (continued)

(b) Analysis by industry sector:

	2022 AED'000	2021 AED'000
Government and public sector	7,528,997	6,105,551
Commercial and business	62,473,668	56,772,841
Personal	25,463,727	19,846,620
Financial institutions	3,104,591	3,842,613
Other	256,339	583,277
	<u>98,827,322</u>	<u>87,150,902</u>

17 Islamic customers' deposits

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

	2022 AED'000	2021 AED'000
Current and other accounts	3,876,915	3,586,227
Saving accounts	232,925	191,227
Time deposits	10,869,101	10,554,633
	<u>14,978,941</u>	<u>14,332,087</u>

The amount under time deposits include AED 11 million relating to profit equalization reserve.

(b) Analysis by industry sector:

	2022 AED'000	2021 AED'000
Government and public sector	2,588,271	812,773
Commercial and business	7,859,337	3,899,289
Personal	2,497,201	1,082,002
Financial institutions	2,034,132	8,538,023
	<u>14,978,941</u>	<u>14,332,087</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

18 Other liabilities

	2022 AED'000	2021 AED'000
Interest payable	473,596	425,204
Negative fair value of derivatives (Note 41)	1,699,015	970,260
Insurance related payables	842,335	572,859
Accrued expenses	955,209	861,278
Income received in advance	612,987	538,702
Pay orders issued	641,711	533,625
Provision for employees' end of service indemnity*	253,599	234,980
Provision for taxation	120,567	104,531
Lease liability	48,983	62,280
Others	1,733,795	1,185,817
Allowance for impairment – off balance sheet	871,247	538,772
	8,253,044	6,028,308

* Provision for employees' end of service indemnity included AED 231 million (31 December 2021: AED 212 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.

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

19 Medium-term loans

	2022 AED'000	2021 AED'000
Medium term notes	<u>5,223,565</u>	<u>7,315,119</u>

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

Year	2022 AED'000	2021 AED'000
2022	-	2,095,531
2023	424,148	389,753
2024	3,944,001	3,989,012
2025	752,951	799,917
2027	64,800	-
2029	37,665	40,906
	<u>5,223,565</u>	<u>7,315,119</u>

Medium term notes are denominated in following currencies:

	2022 AED'000	2021 AED'000
U.S. Dollars	3,637,992	5,254,006
Japanese Yen	409,822	593,340
Australian Dollars	50,004	53,376
Chinese Yuan	1,091,235	1,170,251
Euro	-	83,223
South African Rand	34,512	36,941
Great Britain Pound	-	123,982
	<u>5,223,565</u>	<u>7,315,119</u>

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 2022, AED 2 billion of medium-term notes were redeemed.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

20 Insurance contract liabilities and reinsurance contract assets

	2022 AED'000	2021 AED'000
Insurance contract liabilities		
Outstanding claims	2,166,743	2,188,676
Incurred but not reported claims reserve	522,641	484,339
Life assurance fund	106,182	113,442
Unearned premium	1,791,107	1,346,425
Unit linked liabilities	1,047,652	426,321
Unallocated loss adjustment expenses reserve	7,768	7,399
	<u>5,642,093</u>	<u>4,566,602</u>
	2022 AED'000	2021 AED'000
Reinsurance contract assets		
Outstanding claims	1,658,999	1,734,884
Incurred but not reported claims reserve	322,448	227,102
Life assurance fund	23,892	21,502
Unearned premium	1,122,670	716,478
	<u>3,128,009</u>	<u>2,699,966</u>
	2022 AED'000	2021 AED'000
Insurance contract liabilities-net		
Outstanding claims	507,744	453,792
Incurred but not reported claims reserve	200,193	257,237
Life assurance fund	82,290	91,940
Unearned premium	668,437	629,948
Unit linked liabilities	1,047,652	426,321
Unallocated loss adjustment expenses reserve	7,768	7,398
	<u>2,514,084</u>	<u>1,866,636</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

20 Insurance contract liabilities and reinsurance contract assets (continued)

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

	2022			2021		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
At 1 January	2,680,414	(1,961,987)	718,427	2,927,079	(2,183,195)	743,884
Derecognition on sale of subsidiary (Note 43)	(95,310)	72,688	(22,622)	-	-	-
Claims incurred during the year	2,346,680	(1,374,149)	972,531	2,394,478	(1,295,860)	1,098,618
Claims settled during the year	(2,234,632)	1,282,001	(952,631)	(2,641,143)	1,517,068	(1,124,075)
At 31 December	2,697,152	(1,981,447)	715,705	2,680,414	(1,961,987)	718,427

20.2 Movement in life assurance fund

	AED'000
At 1 January 2021	108,774
Net movement during the year	(16,834)
At 31 December 2021	91,940
Net movement during the year	(9,650)
At 31 December 2022	82,290

20.3 Movement in unit linked liabilities

	AED'000
At 1 January 2021	391,701
Net movement during the year	34,620
At 31 December 2021	426,321
Transfer of unit linked life insurance portfolio (Note 43)	688,737
Net movement during the year	(67,406)
At 31 December 2022	1,047,652

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

20 Insurance contract liabilities and reinsurance contract assets (continued)

The following table presents the sensitivity of the value of insurance contract liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance contract liabilities. For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No losses arose in either 2022 or 2021, 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	
		2022 AED'000	2021 AED'000
Mortality/morbidity	+10%	533	518
Discount rate	+75bps	(2,021)	(2,541)
Mortality/morbidity	-10%	(537)	(522)
Discount rate	-75bps	2,169	2,735

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

At the general meeting held on 9 November 2021, the shareholders approved increase in the share capital of the Bank to AED 2,006,098,300 by issuing 23,079,007 bonus shares based on the existing face value of AED 10 per share, which is a non cash transaction.

As at 31 December 2022, 200,609,830 ordinary shares of AED 10 each (31 December 2021: 200,609,830 ordinary shares of AED 10 each) were fully issued and paid up.

(b) Statutory and legal reserves

In accordance with UAE Federal Law No. 32 of 2021, 10% of net profit for the year is to be transferred to the statutory reserve. Such transfers to reserves may cease when they reach the levels established by the respective regulatory authorities (in the UAE, this level is 50% of the issued and paid up share capital). The legal reserve relates to the Group's foreign operations. Neither the statutory reserve nor the legal reserve is available for distribution.

(c) General reserve

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

21 Issued and paid up capital and reserves (continued)

(d) Currency translation reserve

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

(e) Investments revaluation reserve

Investments revaluation reserve shows the effects from the fair value measurement of Financial assets measured at FVTOCI. The change in fair value for the year amounted to a loss of AED 1,269 million (31 December 2021: loss of AED 174 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 20 April 2022, the shareholders approved a cash dividend of 10% for the year ended 31 December 2021 (31 December 2020: cash dividend of nil) of the issued and paid up capital amounting to AED 201 million.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

22 Non-controlling interests

	2022 AED'000	2021 AED'000
At beginning of the year	796,062	757,680
Share of profit for the year (Note 36)	79,904	73,508
Share of other comprehensive income for the year	37,495	12,024
Dividend paid	(32,826)	(32,825)
Transaction with NCI	(3,320)	(14,325)
At end of the year	<u>877,315</u>	<u>796,062</u>

23 Contingent liabilities and commitments

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

	2022 AED'000	2021 AED'000
Guarantees	31,075,131	33,706,515
Letters of credit	15,698,423	15,785,785
Commitments for capital expenditure	183,940	290,668
	<u>46,957,494</u>	<u>49,782,968</u>

(b) Irrevocable undrawn credit facilities commitments as at 31 December 2022 amounted to AED 10.59 billion (31 December 2021: AED 7.95 billion).

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

24 Interest income

	2022 AED'000	2021 AED'000
Loans and advances	3,856,803	2,647,739
Banks	1,248,546	689,138
Central banks	351,223	73,641
Other financial assets measured at amortised cost	534,711	469,375
Other financial assets measured at fair value	423,658	371,931
	<u>6,414,941</u>	<u>4,251,824</u>

25 Income from Islamic financing and investment products

	2022 AED'000	2021 AED'000
<u>Financing</u>		
Murabaha	461,820	302,081
Ijarah	184,550	154,190
Other	1,327	4,512
	<u>647,697</u>	<u>460,783</u>
<u>Investment</u>		
Wakalah	23,943	14,470
	<u>23,943</u>	<u>14,470</u>
Total	<u>671,640</u>	<u>475,253</u>

26 Interest expense

	2022 AED'000	2021 AED'000
Customers' deposits	1,379,559	927,886
Deposits and balances due to banks	571,838	301,234
Medium-term loans	287,867	276,584
Subordinated debt	15,631	-
	<u>2,254,895</u>	<u>1,505,704</u>

27 Distribution to depositors – Islamic products

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

28 Net fee and commission income

	2022 AED'000	2021 AED'000
Fee and commission income		
Commission income	619,618	588,614
Insurance commission	217,983	228,609
Fees and charges on banking services	826,134	667,576
Credit card related fees	2,168,032	1,720,244
Others	212,363	213,043
Total	4,044,130	3,418,086
Fee and commission expenses		
Commission expense	(72,625)	(34,553)
Insurance commission	(335,992)	(327,286)
Credit card related expenses	(1,749,568)	(1,356,517)
Others	(144,769)	(122,931)
Total	(2,302,954)	(1,841,287)
Net fee and commission income	1,741,176	1,576,799

29 Net investment income

	2022 AED'000	2021 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	38,757	28,305
Unrealised (loss)/gain on other financial assets measured at FVTPL [Note 7(j)]	(36,119)	8,521
Dividend income from other financial assets measured at FVTPL	858	1,041
Net realised gain from sale of other financial assets measured at amortised cost / FVTOCI	53,783	117,603
Dividend income from other financial assets measured at FVTOCI [Note 7 (i)]	34,615	21,337
	91,894	176,807

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

30 Other income, net

	2022 AED'000	2021 AED'000
Foreign exchange gains	417,959	472,228
Insurance related income (Note 36)	538,479	454,995
Gain/(loss) on disposal of property and equipment	341	(3,447)
Unrealised gain on derivatives	58,612	30,724
Unrealised gain on investment properties (Note 11)	2,011	13,114
Others	73,589	39,363
	<u>1,090,991</u>	<u>1,006,977</u>

31 Allowances for impairment, net

	2022 AED'000	2021 AED'000
Deposits and balances due from banks [Note 6(c)]	(3,408)	(4,404)
Other financial assets measured at amortised cost [Note 7(d)]	3,946	3,270
Other financial assets measured at FVTOCI	21	3,372
Loans and advances measured at amortised cost [Note 8(d)]	298,051	1,529,908
Islamic financing and investment products measured at amortised cost [Note 9(c)]	(71,452)	203,822
Other assets	10,964	23,905
Change in impairment allowance on off-balance sheet items	332,374	75,058
Loans and advances including Islamic financing and investment products measured at amortized cost written off	275,215	408,412
Recovery of loans and advances including Islamic financing and investment products measured at amortised cost previously written off	(348,233)	(184,717)
	<u>497,478</u>	<u>2,058,626</u>

32 General and administrative expenses

	2022 AED'000	2021 AED'000
Salaries and employees related expenses	1,765,340	1,466,741
Depreciation on property and equipment (Note 12)	149,286	160,715
Amortisation on intangible assets (Note 13)	124,202	94,854
Social contribution	941	1,785
Others	1,026,487	898,862
	<u>3,066,256</u>	<u>2,622,957</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

33 Earnings per share

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

	2022	2021
Profit for the year (AED'000)		
(Attributed to owners of the Parent)	<u>3,706,293</u>	<u>1,002,203</u>
Number of ordinary shares outstanding [Note 21(a)]	<u>200,609,830</u>	<u>200,609,830</u>
Basic and diluted earnings per share (AED)	<u>18.48</u>	<u>5.00</u>

In accordance with IAS 33 “Earnings Per Share”, the impact of bonus shares issued have been considered retrospectively while computing the weighted average number of ordinary shares during all periods presented.

34 Proposed dividends

The board of Directors has proposed a 90% cash dividend for the year ended 31 December 2022 at their meeting held on 30 January 2023.

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.

	2022 AED'000	2021 AED'000
Cash on hand	1,249,478	1,027,306
Current accounts and other balances with central banks	24,413,114	9,223,621
Certificates of deposit maturing within 3 months	550,000	2,800,000
Deposits and balances due from banks maturing within 3 months	<u>12,292,614</u>	<u>8,251,111</u>
	<u>38,505,206</u>	<u>21,302,038</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

36 Investment in subsidiaries and associates

(a) At 31 December 2022, Mashreqbank PSC Group (the “Group”) comprises the Bank and the following direct subsidiaries, associates and joint venture:

Subsidiary	Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Principal activity
	Oman Insurance Company (PSC)	United Arab Emirates	64.46	Insurance & reinsurance
	Mindscape FZ LLC	United Arab Emirates	100.00	IT services
	Mashreq Securities LLC	United Arab Emirates	100.00	Brokerage
	Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	Brokerage and asset & fund management
	Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	Islamic finance company
	Injaz Services FZ LLC	United Arab Emirates	100.00	Service provider
	Invictus Limited	Cayman Islands	100.00	Special purpose vehicle
	Al Taqania Employment Services One Person Company LLC	United Arab Emirates	100.00	Employment Services
	Al Kafaat Employment Services One Person Company LLC	United Arab Emirates	100.00	Employment Services
	Mashreq for Business Process Support (Sole Person Company)	Egypt	100.00	Employment Services
	Mashreq Global Services (SMC private) Limited	Pakistan	100.00	Employment Services
	Shorouq Commodities Trading DMCC	United Arab Emirates	100.00	Trading
	IDFAA Payment Services LLC	United Arab Emirates	100.00	Payment service provider
	Osool – A Finance Company (PJSC) *	United Arab Emirates	100.00	Finance
Associate				
	Emirates Digital Wallet LLC	United Arab Emirates	23.61	Digital wallet service
Joint venture				
	Noon Digital Pay LLC	United Arab Emirates	51.00	Digital wallet service

* Under liquidation

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

36 Investment in subsidiaries and associates (continued)

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

Name of subsidiary	Profit allocated to non-controlling interest		Accumulated non-controlling interests	
	2022	2021	2022	2021
	AED'000	AED'000	AED'000	AED'000
Oman Insurance Company (PSC)	79,459	73,077	874,377	789,970
Individually immaterial subsidiaries with non-controlling interests	445	431	2,938	6,092
	<u>79,904</u>	<u>73,508</u>	<u>877,315</u>	<u>796,062</u>

(c) Other financial assets measured at FVTPL include investments by Oman Insurance Company PSC amounting to AED 1,064 million (31 December 2021: AED 447 million).

(d) During the year ended 31 December 2022, the Group sold investments held at fair value through other comprehensive income amounting to AED 259 million at the time of sale (31 December 2021: AED 154 million). The Group realised a loss of AED 4 million (31 December 2021: loss of AED 6 million) which was transferred to retained earnings.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

36 Investment in subsidiaries and associates (continued)

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

	2022 AED'000	2021 AED'000
Statement of financial position		
Total assets	9,203,878	7,555,814
Total liabilities	6,743,363	5,332,820
Net equity	2,460,515	2,222,994
Statement of comprehensive income		
Gross insurance premium	4,389,864	3,538,930
Less: Insurance premium ceded to reinsurers	(2,818,929)	(1,953,527)
Net retained premium	1,570,935	1,585,403
Net change in unearned premium and mathematical reserve	(59,925)	(31,791)
Net earned insurance premium	1,511,010	1,553,612
Gross claims settled	(2,234,632)	(2,641,143)
Insurance claims recovered from reinsurers	1,282,001	1,517,068
Net claims settled	(952,631)	(1,124,075)
Net change in outstanding claims and additional reserve	(19,900)	25,457
Net claims incurred	(972,531)	(1,098,618)
Insurance related income (Note 30)	538,479	454,994
Net commission and other loss	(69,687)	(55,976)
Net investment income	126,042	138,323
Net expenses	(371,233)	(331,216)
Profit for the year	223,601	206,125
Other comprehensive income	100,430	38,056
Total comprehensive income	324,031	244,181
Statement of cash flows		
Net cash generated from operating activities	314,819	53,562
Net cash generated from investing activities	(187,089)	17,184
Net cash used in financing activities	(98,166)	(97,940)
Net increase/(decrease) in cash and cash equivalents	29,564	(27,194)

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

37 Related party transactions

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

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

	2022 AED’000	2021 AED’000
Balances with major shareholders		
Loans and advances	3,216,692	2,810,150
Deposits / financial instruments under lien	1,198,230	1,029,236
Letter of credit and guarantees	1,449,059	1,854,305
Balances with directors and key management personnel		
Loans and advances	135,248	125,107
Deposits / financial instruments under lien	364,835	230,884
Letter of credit and guarantees	251	5,369
Balances with associates and joint venture		
Deposits / financial instruments under lien	99,372	-
Letter of credit and guarantees	25,000	-

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

Transactions with major shareholders		
Interest income	104,007	79,407
Interest expense	962	891
Other income	33,427	33,984
Transactions with directors and key management personnel		
Interest income	3,419	2,011
Interest expense	601	71
Other income	302	341
Transactions with associates and joint venture		
Other income	2	-

(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 55 million (31 December 2021: AED 50 million).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

38 Concentration of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2022			31 December 2021		
	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.	98,626,565	99,469,999	31,705,164	89,063,593	74,602,940	26,291,091
Other Middle East Countries	41,399,887	30,429,015	4,139,766	37,079,026	31,949,362	8,772,586
O.E.C.D.	32,031,472	24,415,318	5,016,388	19,846,199	29,787,617	6,264,462
Others	26,753,319	20,078,272	5,912,236	31,064,791	19,689,404	8,164,161
	<u>198,811,243</u>	<u>174,392,604</u>	<u>46,773,554</u>	<u>177,053,609</u>	<u>156,029,323</u>	<u>49,492,300</u>

(b) Industry Sectors

	31 December 2022			31 December 2021		
	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	26,129,153	10,508,040	63,269	29,948,837	7,194,809	44,682
Commercial & business	61,754,577	79,056,754	31,833,750	58,533,228	74,139,651	34,386,637
Personal	23,397,222	28,716,545	214,634	19,243,040	21,504,238	480,376
Financial institutions	85,167,327	54,627,754	14,614,287	67,234,890	51,993,297	14,374,179
Others	2,362,964	1,483,511	47,614	2,093,614	1,197,328	206,426
	<u>198,811,243</u>	<u>174,392,604</u>	<u>46,773,554</u>	<u>177,053,609</u>	<u>156,029,323</u>	<u>49,492,300</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

39 Segmental information

Reportable segments

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

Reportable segments

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

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

- (i) Wholesale segment comprises of corporate and commercial banking. It also includes global Financial Institution and corporate business. It offers complete suite of corporate banking products such as Trade finance, contracting finance, project finance, investment banking, cash management, correspondent banking and Islamic products.
- (ii) The Retail segment includes products and services offered to individuals or small businesses within U.A.E. and Egypt. The product offerings to customers include, current accounts, savings accounts, fixed deposits, investment products, "Mashreq Millionaire" deposits, personal loans, mortgage loans, business loans, credit cards with unique loyalty programs, bank assurance, overdraft, priority banking, SME, private banking, wealth management services and Islamic products.
- (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 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.
- (v) Other consists of Head office and certain investments and assets held centrally due to their strategic significance to the Group.

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2022					
	Wholesale AED'000	Retail AED'000	Treasury & capital markets AED'000	Insurance AED'000	Other AED'000	Total AED'000
Net interest income and earnings from Islamic products	2,226,099	1,658,328	355,392	85,507	246,632	4,571,958
Non-interest income, net	947,539	1,178,426	262,685	478,421	56,990	2,924,061
Operating income	3,173,638	2,836,754	618,077	563,928	303,622	7,496,019
General and administrative expenses	(1,025,628)	(1,494,899)	(145,398)	(323,829)	(76,502)	(3,066,256)
Operating profit before impairment						4,429,763
Allowances for impairment, net						(497,478)
Profit before tax						3,932,285
Tax expense						(146,088)
Profit for the year						3,786,197
Attributable to:						
Owners of the Parent						3,706,293
Non-controlling interests						79,904
						3,786,197
Segment Assets	95,593,672	25,718,464	48,696,901	9,161,326	19,640,880	198,811,243
Segment Liabilities	84,194,570	52,527,388	18,153,742	6,719,595	12,797,309	174,392,604

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Notes to the consolidated financial statements for the year ended 31 December 2022(continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2021					
	Wholesale AED'000	Retail AED'000	Treasury & capital markets AED'000	Insurance AED'000	Other AED'000	Total AED'000
Net interest income and earnings from Islamic products	1,562,122	1,086,880	201,661	81,381	113,445	3,045,489
Non-interest income, net	953,494	940,995	416,704	453,230	(3,840)	2,760,583
Operating income	<u>2,515,616</u>	<u>2,027,875</u>	<u>618,365</u>	<u>534,611</u>	<u>109,604</u>	<u>5,806,072</u>
General and administrative expenses	(920,900)	(1,194,874)	(119,458)	(301,825)	(85,900)	(2,622,957)
Operating profit before impairment						<u>3,183,115</u>
Allowances for impairment, net						(2,058,626)
Profit before tax						<u>1,124,489</u>
Tax expense						(48,778)
Profit for the year						<u>1,075,711</u>
Attributable to:						
Owners of the Parent						1,002,203
Non-controlling interests						<u>73,508</u>
						1,075,711
Segment Assets	<u>91,161,891</u>	<u>20,196,817</u>	<u>36,960,425</u>	<u>7,466,493</u>	<u>21,267,983</u>	<u>177,053,609</u>
Segment Liabilities	<u>73,409,026</u>	<u>40,687,894</u>	<u>21,157,080</u>	<u>5,305,995</u>	<u>15,469,327</u>	<u>156,029,322</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

39 Segmental information (continued)

Geographical information

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

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

	Operating income from external customers *		Non-current assets **	
	2022	2021	2022	2021
	AED'000	AED'000	AED'000	AED'000
UAE	6,107,859	4,711,137	2,005,865	2,062,938
Other Middle East countrie	921,280	810,728	57,079	76,036
O.E.C.D.	324,746	173,383	20,045	22,250
Other countries	142,134	110,824	8,003	9,037
	<u>7,496,019</u>	<u>5,806,072</u>	<u>2,090,992</u>	<u>2,170,261</u>

* 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 2022 and 2021.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

40 Classification of financial assets and liabilities

(a) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2022:

	FVTPL	FVTOCI	Amortised	Total
	AED'000	AED'000	cost	AED'000
			AED'000	
Financial assets:				
Cash and balances with central banks	-	-	31,435,930	31,435,930
Deposits and balances due from banks	-	-	28,846,448	28,846,448
Other financial assets measured at fair value	2,652,254	7,777,511	-	10,429,765
Other financial assets measured at amortised cost	-	-	16,422,947	16,422,947
Loans and advances measured at amortised cost	-	-	75,630,344	75,630,344
Islamic financing and investment products measured at amortised cost	-	-	14,672,897	14,672,897
Acceptances			9,310,974	9,310,974
Other assets	2,623,722	-	3,765,352	6,389,074
Total	5,275,976	7,777,511	180,084,892	193,138,379

Financial liabilities:

Deposits and balances due to banks	-	-	28,399,456	28,399,456
Repurchase agreements with banks	-	-	1,926,182	1,926,182
Customers' deposits	-	-	98,827,322	98,827,322
Islamic customers' deposits	-	-	14,978,941	14,978,941
Acceptances	-	-	9,310,974	9,310,974
Other liabilities	1,699,015	-	4,724,540	6,423,555
Medium-term loans	-	-	5,223,565	5,223,565
Subordinated debt	-	-	1,831,027	1,831,027
Total	1,699,015	-	165,222,007	166,921,022

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

40 Classification of financial assets and liabilities (continued)

(b) The table below sets out the Group's classification of each class of financial assets and liabilities and their carrying amounts as at 31 December 2021:

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	17,507,751	17,507,751
Deposits and balances due from bank	-	-	28,805,095	28,805,095
Other financial assets measured at fair value	2,273,444	14,167,679	-	16,441,123
Other financial assets measured at amortised cost	-	-	10,277,824	10,277,824
Loans and advances measured at amortised cost	-	-	66,432,570	66,432,570
Islamic financing and investment products measured at amortised cost	-	-	15,053,454	15,053,454
Acceptances			14,340,671	14,340,671
Other assets	1,028,186	-	1,887,183	2,915,369
Total	<u>3,301,630</u>	<u>14,167,679</u>	<u>154,304,548</u>	<u>171,773,857</u>

Financial liabilities:

Deposits and balances due to banks	-	-	19,566,486	19,566,486
Repurchase agreements with banks	-	-	2,729,147	2,729,147
Customers' deposits	-	-	87,150,902	87,150,902
Islamic customers' deposits	-	-	14,332,087	14,332,087
Acceptances			14,340,671	14,340,671
Other liabilities	970,260	-	3,606,976	4,577,236
Medium-term loans	-	-	7,315,119	7,315,119
Total	<u>970,260</u>	<u>-</u>	<u>149,041,388</u>	<u>150,011,648</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

41 Derivatives

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

- (a) Swaps are commitments to exchange one set of cash flows for another. For interest rate swaps, counter-parties generally exchange fixed and floating rate interest payments in a single currency without exchanging principal. For currency swaps, fixed interest payments and principal are exchanged in different currencies. For cross-currency rate swaps, principal, fixed and floating interest payments are exchanged in different currencies.
- (b) Credit Default Swap (CDS) is a swap contract in which the buyer of the CDS makes a series of payments to the seller and, in exchange, receives a payoff if a debt instrument goes into default and fails to pay.
- (c) Forwards and futures are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specified price and date in the future. Forwards are customised contracts transacted in the over-the-counter market. Foreign currency and interest rate futures are transacted in standardised amounts on regulated exchanges and changes in futures contract values are marked to market daily.
- (d) Forward rate agreements are similar to interest rate futures, but are individually negotiated. They call for a cash settlement for the difference between a contracted interest rate and the market rate on a specified future date, on a notional principal for an agreed period of time.
- (e) Options are contractual agreements under which the seller (writer) grants the purchaser (holder) the right, but not the obligation, to either buy or sell at fixed future date or at any time during a specified period, a specified amount of a currency, commodity or financial instrument at a pre-determined price.

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

41 Derivatives (continued)

31 December 2022

	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	560,057	380,540	73,311,757	59,363,324	6,767,806	4,060,475	3,045,147	75,005
Foreign exchange options (bought)	9,713	9,703	448,587	115,515	333,072	-	-	-
Foreign exchange options (sold)	-	-	210,948	47,908	163,040	-	-	-
Interest rate swaps	1,933,379	1,148,720	28,167,946	534,870	43,384	2,052,489	12,185,314	13,351,889
Credit default swaps	-	-	-	-	-	-	-	-
Futures contracts purchased (Customer)	75,556	369	818,767	733,023	85,744	-	-	-
Futures contracts sold (Customer)	909	3,143	192,811	192,811	-	-	-	-
Futures contracts purchased (Bank)	369	75,556	818,767	733,023	85,744	-	-	-
Futures contracts sold (Bank)	3,143	909	192,811	192,811	-	-	-	-
Total	2,583,126	1,618,940	104,162,394	61,913,285	7,478,790	6,112,964	15,230,461	13,426,894
Held as fair value / cash flow hedge:								
Cross-currency swap	40,596	80,075	1,822,469	-	31,220	16,528	1,696,574	78,147
Total	2,623,722	1,699,015	105,984,863	61,913,285	7,510,010	6,129,492	16,927,035	13,505,041

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

41 Derivatives (continued)

31 December 2021

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to maturity				
				Up to 3 months	3 – 6 months	6 – 12 months	1 – 5 years	Over 5 Years
				AED'000	AED'000	AED'000	AED'000	AED'000
Derivatives held for trading:								
Forward foreign exchange contract	249,452	194,982	56,973,978	30,699,732	12,574,299	10,090,188	3,532,013	77,923
Foreign exchange options (bought)	-	336	1,880,243	1,566,326	31,640	282,276	-	-
Foreign exchange options (sold)	513	-	1,622,613	1,565,979	31,640	24,994	-	-
Interest rate swaps	606,997	662,173	34,035,738	907,988	377,668	5,252,582	13,526,998	13,970,503
Credit default swaps	237	271	55,095	-	-	-	55,095	-
Futures contracts purchased (Customer)	47,450	23,481	1,208,485	802,997	1,659	403,828	-	-
Futures contracts sold (Customer)	142	1,301	47,595	28,634	18,961	-	-	-
Futures contracts purchased (Bank)	1,301	142	47,595	28,634	18,961	-	-	-
Futures contracts sold (Bank)	23,481	47,451	1,217,320	811,833	1,659	403,828	-	-
Total	929,573	930,137	97,088,662	36,412,123	13,056,487	16,457,696	17,114,106	14,048,426
Held as fair value / cash flow hedge:								
Cross-currency swap	98,613	40,123	1,960,813	22,620	-	-	1,795,204	150,359
Total	1,028,186	970,260	99,049,475	36,434,743	13,056,487	16,457,696	18,909,310	14,198,785

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

42 Capital management

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

- To comply with the capital requirements set by the Basel Committee on Banking Supervision (BCBS) and the regulators of the banking markets where the entities within the Group operate;
- To safeguard the Group's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base and capital buffer to support the development of its business and provide adequate cushion to withstand a variety of stress scenarios and/or unforeseen risks.

Regulatory capital

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

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

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

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

- Tier 1 capital, split into Common equity tier 1 (CET 1) which includes issued and paid-up share capital, retained earnings, statutory and legal reserves, accumulated other comprehensive income and Additional tier 1 (AT 1) comprising of instrument issued by banks which are eligible for inclusion on AT 1 and are not included in CET 1.
- Tier 2 capital, which includes general provisions (Collective allowance for impairment subject to a limit of 1.25% of Credit Risk Weighted Assets), qualifying subordinated liabilities not part of CET 1.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

42 Capital management (continued)

Regulatory capital (continued)

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

As per the Central bank regulation for Basel III, the capital requirement as at 31 December 2022 is 13% inclusive of capital conservation buffer.

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

- (i) CET1 must be at least 7% of risk weighted assets (RWA);
- (ii) Tier 1 capital must be at least 8.5% of risk weighted assets (RWA); and
- (iii) Total capital, calculated as sum of Tier 1 capital and Tier 2 capital must be at least 10.5% of risk weighted assets (RWA).
- (iv) In addition, banks are required to maintain a capital conservation buffer (CCB) of 2.5% of risk weighted assets (RWA) in the form of CET 1

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

42 Capital management (continued)

Regulatory capital (continued)

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

42 Capital management (continued)

Regulatory capital (continued)

- (a) The Group's regulatory capital positions as at 31 December 2022 and 31 December 2021 were as follows:

	2022 AED'000	2021 AED'000
Common equity Tier 1 capital		
Issued and paid up capital	2,006,098	2,006,098
Statutory and legal reserve	1,027,494	1,012,320
General reserve	312,000	312,000
Currency translation reserve	(130,804)	(116,116)
Investments revaluation reserve	(1,813,781)	(547,489)
Retained earnings	19,232,928	17,360,802
Less: Regulatory deductions	(214,364)	(241,729)
Total (A)	20,419,571	19,785,886
Additional Tier 1 capital	1,101,900	-
Total Tier 1 capital (B)	21,521,471	19,785,886
Tier 2 capital		
Subordinated debt	1,831,027	-
General provision	1,800,412	1,693,975
Total	3,631,439	1,693,975
Total capital base (C)	25,152,910	21,479,861
Credit risk	144,032,961	135,518,028
Market risk	2,655,216	3,206,199
Operational risk	10,319,049	9,444,817
Total risk-weighted assets (D)	157,007,226	148,169,044
Capital adequacy ratio [(C)/(D) x 100]	16.02%	14.50%

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

42 Capital management (continued)

Regulatory capital (continued)

Capital allocation

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

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

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management

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

The Group is exposed to the following material risks:

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

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

Risk Management Framework

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

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

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

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Risk Management Framework (continued)

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

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

Capital Management

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

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

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Risk Appetite & Stress Testing

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

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

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

Risks that are explicitly assessed through ICAAP are credit risk, market risk, operational risk, concentration risk, funding cost risk, business risk and interest rate risk in the banking book. Preserving the capital position remains a priority from both a regulatory and management viewpoint.

Credit risk management

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

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

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

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

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

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. Over the course of 2022, IFRS 9 PD models were refreshed for SMEs within UAE and FI borrowers. In addition, a model for IFRS 9 LGD was also introduced.

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

Credit risk grading

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

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

Borrower risk ratings are mapped into the following 5 Grades:

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

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

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

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

Expected credit loss measurement

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

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

Significant increase in credit risk (SICR)

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

Quantitative criteria

Corporate loans:

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

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

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

Retail:

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

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

Treasury:

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

Qualitative criteria:

Corporate Loans

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

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

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2022 and 31 December 2021.

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 based on supportable forward-looking information. The borrower is also flagged in the system and is therefore subject to closer monitoring.

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets

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

Quantitative criteria

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

Qualitative criteria:

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

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

The criteria above have 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.

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions, and estimation techniques

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

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

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

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

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

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

The Group continues to closely monitor and manage, as required, direct and indirect exposure and impacts from the ongoing geopolitical situation and resultant market disruption. The group is cognizant of the regional economic impacts resulting from global inflationary pressures and monetary policy tightening and has been actively managing down exposure to countries that are most susceptible. The macroeconomic factors used in the IFRS 9 models take into account such information. The macroeconomic data for IFRS 9 PDs is typically updated every 6 months. The update was last made in September 2022.

With respect to the Russia and Ukraine conflict, the Group's exposure to Russia and Ukraine is to Financial Institution in these countries. The Group continues to monitor the day-to-day situation with respective counterparties and is actively managing any direct exposure.

In addition, in anticipation of credit softness in other regional countries subject to economic turmoil, such as Sri Lanka and Pakistan, the Group has either significantly wound down the exposure or has tightened its position and is focused on dealing with carefully selected counterparties only.

The Group has implemented risk rating models since 2005 which has enabled the Bank to rate borrowers based on their financial and qualitative information. The segmentation of these models was revisited in 2021 to introduce a new corporate model to rate large corporates. Ratings from rating models are used as an input into IFRS 9 macroeconomic models to derive a PD term structure for each rating grade in the IFRS 9 ECL computation.

In 2022, the Group has revised the IFRS 9 macroeconomic models for LGD, UAE SME and FI portfolios to include recent loss data. Remaining models have been reviewed within an acceptable period in the past and continue to be adequate.

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

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 in line 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.

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

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

Forward looking information incorporated in the ECL models

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

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

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

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

1. Current Account to GDP
2. Equity Index (Abu Dhabi)
3. Budget Expenditure to GDP
4. Oil Price
5. GDP
6. Industrial Production

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

Sensitivity analysis

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

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

- Current Account to GDP (Change)
- Abu Dhabi Equity Index (Change)
- Oil price

The Group has performed a sensitivity analysis on how ECL on the credit portfolio will change if the key assumptions used to calculate ECL change by a certain percentage. The impact on ECL due to changes in the forecasted probabilities of default as a result of variations in Abu Dhabi Equity Index, Oil Price and Current Account to GDP (three key macro-factors used within IFRS 9 PD Models) by +10% / -10% in each scenario would result in an ECL reduction by AED 66 million and an ECL increase by AED 80 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.

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

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

	2022				2021			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
<i>Cash and balances with Central Bank</i>	31,435,930	-	-	31,435,930	17,507,751	-	-	17,507,751
Loss allowance	-	-	-	-	-	-	-	-
Carrying amount	<u>31,435,930</u>	<u>-</u>	<u>-</u>	<u>31,435,930</u>	<u>17,507,751</u>	<u>-</u>	<u>-</u>	<u>17,507,751</u>
<i>Deposits and balances due from banks</i>								
Investment-grade	4,365,051	121,999	-	4,487,050	5,765,434	72,762	-	5,838,196
BB+ & below	9,199,596	2,597,768	-	11,797,364	12,103,401	1,360,385	-	13,463,786
Unrated	11,546,038	1,111,737	25,195	12,682,970	8,114,789	1,476,877	78,946	9,670,612
	<u>25,110,685</u>	<u>3,831,504</u>	<u>25,195</u>	<u>28,967,384</u>	<u>25,983,624</u>	<u>2,910,024</u>	<u>78,946</u>	<u>28,972,594</u>
Loss allowance	(71,219)	(31,496)	(18,221)	(120,936)	(92,130)	(14,417)	(60,952)	(167,499)
Carrying amount	<u>25,039,466</u>	<u>3,800,008</u>	<u>6,974</u>	<u>28,846,448</u>	<u>25,891,494</u>	<u>2,895,607</u>	<u>17,994</u>	<u>28,805,095</u>

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

	2022			
	Stage 1	Stage 2	Stage 3	
<i>Loans and advances -At amortised cost</i>	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
Grading 1	17,984,218	26,895	-	18,011,113
Grading 2	51,797,008	2,047,580	-	53,844,588
Grading 3	2,760,209	2,264,071	-	5,024,280
Grading 4	34,242	704,854	-	739,096
Grading 5	-	-	2,323,633	2,323,633
	<u>72,575,677</u>	<u>5,043,400</u>	<u>2,323,633</u>	<u>79,942,710</u>
Loss allowance	<u>(560,263)</u>	<u>(1,488,855)</u>	<u>(2,263,248)</u>	<u>(4,312,366)</u>
Carrying amount	<u>72,015,414</u>	<u>3,554,545</u>	<u>60,385</u>	<u>75,630,344</u>
<i>Islamic financing and investment products measured at amortised cost</i>				
Grading 1	2,774,119	-	-	2,774,119
Grading 2	6,223,093	61,713	-	6,284,806
Grading 3	5,359,168	166,352	-	5,525,520
Grading 4	-	19,063	-	19,063
Grading 5	-	-	538,855	538,855
	<u>14,356,380</u>	<u>247,128</u>	<u>538,855</u>	<u>15,142,363</u>
Loss allowance	<u>(20,796)</u>	<u>(9,787)</u>	<u>(438,883)</u>	<u>(469,466)</u>
Carrying amount	<u>14,335,584</u>	<u>237,341</u>	<u>99,972</u>	<u>14,672,897</u>

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

	2021			
<i>Loans and advances -At amortised cost</i>	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Grading 1	10,011,576	231,304	-	10,242,880
Grading 2	47,466,433	2,077,526	-	49,543,959
Grading 3	4,831,904	2,197,590	-	7,029,494
Grading 4	111,610	1,140,026	-	1,251,636
Grading 5	-	-	4,458,678	4,458,678
	<u>62,421,523</u>	<u>5,646,446</u>	<u>4,458,678</u>	<u>72,526,647</u>
Loss allowance	<u>(511,719)</u>	<u>(1,235,239)</u>	<u>(4,347,119)</u>	<u>(6,094,077)</u>
Carrying amount	<u>61,909,804</u>	<u>4,411,207</u>	<u>111,559</u>	<u>66,432,570</u>
<i>Islamic financing and investment products measured at amortised cost</i>				
Grading 1	2,006,394	400	-	2,006,794
Grading 2	7,865,902	366,490	-	8,232,392
Grading 3	4,216,831	222,215	-	4,439,046
Grading 4	838	25,927	-	26,765
Grading 5	-	-	975,420	975,420
	<u>14,089,965</u>	<u>615,032</u>	<u>975,420</u>	<u>15,680,417</u>
Loss allowance	<u>(51,011)</u>	<u>(12,106)</u>	<u>(563,846)</u>	<u>(626,963)</u>
Carrying amount	<u>14,038,954</u>	<u>602,926</u>	<u>411,574</u>	<u>15,053,454</u>

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

	2022			
	Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
<i>Other financial assets measured at amortised cost</i>				
Investment-grade	12,472,587	-	-	12,472,587
BB+ & below	3,976,570	-	-	3,976,570
Unrated	-	-	2,205	2,205
	16,449,157	-	2,205	16,451,362
Loss allowance	(26,210)	-	(2,205)	(28,415)
Carrying amount	16,422,947	-	-	16,422,947
<i>Other financial assets measured at FVTOCI (debt securities)</i>				
Investment-grade	6,238,239	-	-	6,238,239
BB+ & below	701,496	-	-	701,496
Unrated	19	-	-	19
	6,939,754	-	-	6,939,754
Loss allowance	(5,019)	-	-	(5,019)
Carrying amount	6,934,735	-	-	6,934,735

Equity securities at FVTOCI don't carry credit risk and hence have not been disclosed here. Investments at fair value through profit or loss are neither past due nor impaired.

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

	2021			
	Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
<i>Other financial assets measured at amortised cost</i>				
Investment-grade	6,378,347	-	-	6,378,347
BB+ & below	3,556,040	-	-	3,556,040
Unrated	365,740	-	2,205	367,945
	10,300,127	-	2,205	10,302,332
Loss allowance	(22,303)	-	(2,205)	(24,508)
Carrying amount	10,277,824	-	-	10,277,824
<i>Other financial assets measured at FVTOCI (debt securities)</i>				
Investment-grade	7,750,595	-	-	7,750,595
BB+ & below	644,747	-	-	644,747
Unrated	5,090,331	-	-	5,090,331
	13,485,673	-	-	13,485,673
Loss allowance	(4,954)	-	-	(4,954)
Carrying amount	13,480,719	-	-	13,480,719

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

	2022				2021			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
<i>Other assets</i>	-	705,915	426,900	1,132,815	-	566,636	435,185	1,001,821
Loss allowance	-	(18,436)	(415,741)	(434,177)	-	(19,743)	(419,613)	(439,356)
Carrying amount	-	687,479	11,159	698,638	-	546,893	15,572	562,465
<i>Acceptances</i>	9,073,184	237,790	-	9,310,974	14,137,040	203,631	-	14,340,671
Loss allowance	(10,511)	(955)	-	(11,466)	(25,618)	(3,787)	-	(29,405)

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

	2022				2021			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
<i>Credit risk exposures relating to off-balance sheet items are as follows:</i>	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
Letters of credit	14,238,949	1,455,195	4,279	15,698,423	13,957,351	1,767,518	60,916	15,785,785
Guarantees	27,070,775	2,893,923	1,110,433	31,075,131	28,330,800	4,195,544	1,180,171	33,706,515
Undrawn credit commitments - Irrevocable	10,587,495	-	-	10,587,495	7,832,021	118,026	-	7,950,047
	<u>51,897,219</u>	<u>4,349,118</u>	<u>1,114,712</u>	<u>57,361,049</u>	<u>50,120,172</u>	<u>6,081,088</u>	<u>1,241,087</u>	<u>57,442,347</u>
Loss allowance	<u>(73,900)</u>	<u>(75,660)</u>	<u>(710,221)</u>	<u>(859,781)</u>	<u>(62,093)</u>	<u>(38,680)</u>	<u>(408,594)</u>	<u>(509,367)</u>

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

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

	2022 AED'000	2021 AED'000
Trading assets		
- Debt securities	1,348,137	1,548,129
- Derivatives	2,583,126	929,573
Hedging derivatives	40,596	98,613
	<u>3,971,859</u>	<u>2,576,315</u>

Risk management in the current economic scenario

The Group continues to closely monitor and manage, as required, direct and indirect exposure and impacts from the ongoing geopolitical situation and resultant market disruption. The group is cognizant of the regional economic impacts resulting from global inflationary pressures and monetary policy tightening and has been actively managing down exposure to countries that are most susceptible. The macroeconomic factors used in the IFRS 9 models take into account such information. The macroeconomic data for IFRS 9 PDs is typically updated every 6 months. The last update was made in September 2022.

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.

Mashreq Bank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Credit risk management (continued)

Collateral and other credit enhancements

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

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

	Loans and advances and Islamic financing and investment products		Due from banks	
	31 December 2022	31 December 2021	31 December 2022	31 December 2021
	AED'000	AED'000	AED'000	AED'000
<i>Against individually impaired:</i>				
Properties	496,374	784,532	-	-
Cash	58,283	45,332	-	-
Others	167,527	241,030	-	-
	<u>722,184</u>	<u>1,070,894</u>	<u>-</u>	<u>-</u>
<i>Against not impaired:</i>				
Properties	22,530,951	21,929,281	-	-
Debt securities	2,909,034	-	-	-
Equities	1,464,618	928,144	-	-
Cash	8,758,311	17,068,995	1,747,955	1,291,248
Others	1,190,352	4,831,537	-	-
	<u>36,853,266</u>	<u>44,757,957</u>	<u>1,747,955</u>	<u>1,291,248</u>
Total	<u>37,575,450</u>	<u>45,828,851</u>	<u>1,747,955</u>	<u>1,291,248</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Loss allowance

The following tables explain the changes in the loss allowance for the year ended 31 December 2022 and 31 December 2021:

	2022				2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
<i>Deposits and balances due from banks</i>								
Loss allowance as at 1 January	92,130	14,417	60,952	167,499	69,256	41,409	55,457	166,122
Transfers								
Transfer from Stage 1 to Stage 2	(31,173)	31,173	-	-	(13,022)	13,022	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-	(1)	1	-
Transfer from Stage 2 to Stage 1	-	-	-	-	37	(37)	-	-
New financial assets originated	87,387	-	-	87,387	96,237	-	-	96,237
Changes in PDs/LGDs/EADs	(77,125)	(14,094)	1,851	(89,368)	(60,378)	(39,976)	5,494	(94,860)
Write-offs	-	-	(44,582)	(44,582)	-	-	-	-
Loss allowance as at 31 December	71,219	31,496	18,221	120,936	92,130	14,417	60,952	167,499

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2022				2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
<i>Loans and advances measured at amortised cost</i>								
Loss allowance as at 1 January	511,719	1,235,239	4,347,119	6,094,077	556,764	2,274,612	2,572,250	5,403,626
Transfers								
Transfer from Stage 1 to Stage 2	(116,013)	116,013	-	-	(149,949)	149,949	-	-
Transfer from Stage 1 to Stage 3	(34,044)	-	34,044	-	(15,085)	-	15,085	-
Transfer from Stage 2 to Stage 1	20,858	(20,858)	-	-	1,240	(1,240)	-	-
Transfer from Stage 2 to Stage 3	-	(30,491)	30,491	-	-	(747,341)	747,341	-
Transfer from Stage 3 to Stage 2	-	97,250	(97,250)	-	-	-	-	-
New financial assets originated	368,034	-	-	368,034	297,592	-	-	297,592
Changes in PDs/LGDs/EADs	(190,291)	91,702	190,400	91,811	(178,843)	(440,741)	2,041,979	1,422,395
Write-offs	-	-	(2,241,556)	(2,241,556)	-	-	(1,029,536)	(1,029,536)
Loss allowance as at 31 December	560,263	1,488,855	2,263,248	4,312,366	511,719	1,235,239	4,347,119	6,094,077

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2022				2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
<i>Islamic financing and investment products measured at amortised cost</i>								
Loss allowance as at 1 January	51,011	12,106	563,846	626,963	58,112	12,530	336,688	407,330
Transfers								
Transfer from Stage 1 to Stage 2	(1,311)	1,311	-	-	(2,602)	2,602	-	-
Transfer from Stage 1 to Stage 3	(341)	-	341	-	-	-	-	-
Transfer from Stage 2 to Stage 1	501	(501)	-	-	2	(2)	-	-
Transfer from Stage 2 to Stage 3	-	(1,046)	1,046	-	-	(419)	419	-
Transfer from Stage 3 to Stage 2	-	3,388	(3,388)	-	-	-	-	-
New financial assets originated	13,191	-	-	13,191	30,371	-	-	30,371
Changes in PDs/LGDs/EADs	(42,255)	(5,471)	57,199	9,473	(34,872)	(2,605)	226,970	189,493
Write-offs	-	-	(180,161)	(180,161)	-	-	(231)	(231)
Loss allowance as at 31 December	20,796	9,787	438,883	469,466	51,011	12,106	563,846	626,963

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2022				2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
<i>Other financial assets measured at amortised cost</i>								
Loss allowance as at 1 January	22,303	-	2,205	24,508	19,024	-	2,205	21,229
Transfers								
New financial assets originated	17,479	-	-	17,479	12,780	-	-	12,780
Changes in PDs/LGDs/EADs	(13,572)	-	-	(13,572)	(9,501)	-	-	(9,501)
Loss allowance as at 31 December	26,210	-	2,205	28,415	22,303	-	2,205	24,508

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2022				2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
<i>Other assets</i>								
Loss allowance as at 1 January	-	19,743	419,613	439,356	-	17,789	413,188	430,977
Transfers								
Changes in PDs/LGDs/EADs	-	(1,313)	12,277	10,964	-	2,212	21,693	23,905
FX and other movements	-	-	(5,462)	(5,462)	-	-	(2,875)	(2,875)
Write-offs	-	6	(10,687)	(10,681)	-	(258)	(12,393)	(12,651)
Loss allowance as at 31 December	-	18,436	415,741	434,177	-	19,743	419,613	439,356

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2022				2021			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
<i>LCs, LGs, irrevocable undrawn commitments and acceptances</i>								
Loss allowance as at 1 January	87,711	42,467	408,594	538,772	91,757	51,984	325,000	468,741
Transfers								
Transfer from Stage 1 to Stage 2	(49,497)	49,497	-	-	(14,239)	14,239	-	-
Transfer from Stage 2 to Stage 1	4,006	(4,006)	-	-	3,071	(3,071)	-	-
Transfer from Stage 2 to Stage 3	-	(2,963)	2,963	-	-	(86)	86	-
Transfer from Stage 3 to Stage 2	-	1,825	(1,825)	-	-	-	-	-
New financial assets originated	100,455	-	-	100,455	69,292	-	-	69,292
Changes in PDs/LGDs/EADs	(58,264)	(10,205)	300,489	232,020	(62,170)	(20,599)	83,508	739
Loss allowance as at 31 December	<u>84,411</u>	<u>76,615</u>	<u>710,221</u>	<u>871,247</u>	<u>87,711</u>	<u>42,467</u>	<u>408,594</u>	<u>538,772</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Gross carrying amount

The following tables further explains the changes in the gross carrying amount for the year ended 31 December 2022 and 31 December 2021:

	2022				2021			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Cash and balances with central banks</i>								
Gross carrying amount as at 1 January	17,507,751	-	-	17,507,751	17,941,941	-	-	17,941,941
New financial assets originated	550,000	-	-	550,000	2,800,000	-	-	2,800,000
Repayments and other movements	13,378,179	-	-	13,378,179	(3,234,190)	-	-	(3,234,190)
Gross carrying amount as at 31 December	31,435,930	-	-	31,435,930	17,507,751	-	-	17,507,751

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Deposits and balances due from banks</i>								
Gross carrying amount as at 1 January	25,983,624	2,910,024	78,946	28,972,594	22,795,110	5,525,019	85,023	28,405,152
Transfers								
Transfer from Stage 1 to Stage 2	(4,020,902)	4,020,902	-	-	(2,849,582)	2,849,582	-	-
Transfer from Stage 2 to Stage 1	-	-	-	-	1,987	(1,987)	-	-
Transfer from Stage 2 to Stage 3	-	-	-	-	-	(14)	14	-
New financial assets originated	26,254,853	-	-	26,254,853	25,953,680	-	-	25,953,680
Repayments and other movements	(23,106,891)	(3,099,421)	(9,169)	(26,215,481)	(19,917,571)	(5,462,576)	(6,091)	(25,386,238)
Write-offs	-	-	(44,582)	(44,582)	-	-	-	-
Gross carrying amount as at 31 December	25,110,684	3,831,505	25,195	28,967,384	25,983,624	2,910,024	78,946	28,972,594

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Other financial assets measured at amortised cost and FVTOCI (debt securities)</i>								
Gross carrying amount as at 1 January	23,785,800	-	2,205	23,788,005	17,492,244	-	2,205	17,494,449
New financial assets originated	13,811,750	-	-	13,811,750	11,787,603	-	-	11,787,603
Repayments and other movements	(14,204,461)	-	-	(14,204,461)	(5,494,047)	-	-	(5,494,047)
Write-offs	(4,178)			(4,178)				
Gross carrying amount as at 31 December	23,388,911	-	2,205	23,391,116	23,785,800	-	2,205	23,788,005

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Loans and advances measured at amortised cost</i>								
Gross carrying amount as at 1 January	62,421,522	5,646,447	4,458,678	72,526,647	53,807,604	5,305,950	3,576,483	62,690,037
Transfers								
Transfer from Stage 1 to Stage 2	(3,458,173)	3,458,173	-	-	(3,655,063)	3,655,063	-	-
Transfer from Stage 1 to Stage 3	(83,719)	-	83,719	-	(222,739)	-	222,739	-
Transfer from Stage 2 to Stage 3	-	(229,563)	229,563	-	-	(969,760)	969,760	-
Transfer from Stage 3 to Stage 2	-	447,342	(447,342)	-	-	14	(14)	-
Transfer from Stage 2 to Stage 1	1,120,386	(1,120,386)	-	-	80,278	(80,278)	-	-
New financial assets originated	52,279,308	-	-	52,279,308	38,703,246	-	-	38,703,246
Repayments and other movements	(39,703,647)	(3,158,612)	240,570	(42,621,689)	(26,291,804)	(2,264,542)	719,246	(27,837,100)
Write-offs	-	-	(2,241,556)	(2,241,556)	-	-	(1,029,536)	(1,029,536)
Gross carrying amount as at 31 December	72,575,677	5,043,401	2,323,632	79,942,710	62,421,522	5,646,447	4,458,678	72,526,647

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Islamic financing and other investments measured at amortised cost</i>								
Gross carrying amount as at 1 January	14,089,965	615,032	975,420	15,680,417	13,301,319	291,424	1,060,930	14,653,673
Transfers								
Transfer from Stage 1 to Stage 2	(106,746)	106,746	-	-	(319,103)	319,103	-	-
Transfer from Stage 1 to Stage 3	(1,602)	-	1,602	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(5,010)	5,010	-	-	(5,396)	5,396	-
Transfer from Stage 2 to Stage 1	-	22,167	(22,167)	-	1,931	(1,931)	-	-
Transfer from Stage 3 to Stage 2	65,888	(65,888)	-	-				
New financial assets originated	6,763,818	-	-	6,763,818	7,985,879	-	-	7,985,879
Repayments and other movements	(6,454,942)	(425,920)	(240,848)	(7,121,710)	(6,880,061)	11,832	(90,675)	(6,958,904)
Write-offs	-	-	(180,162)	(180,162)	-	-	(231)	(231)
Gross carrying amount as at 31 December	14,356,381	247,127	538,855	15,142,363	14,089,965	615,032	975,420	15,680,417

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
<i>Other assets</i>								
Gross carrying amount as at 1 January	-	566,635	435,185	1,001,820	-	585,565	428,432	1,013,997
Repayments and other movements	-	139,274	(1,721)	137,553	-	(18,671)	19,146	475
Write-offs	-	6	(6,564)	(6,558)	-	(258)	(12,393)	(12,651)
Gross carrying amount as at 31 December	-	705,915	426,900	1,132,815	-	566,636	435,185	1,001,821
<i>Acceptances</i>								
Gross carrying amount as at 1 January	14,137,040	203,631	-	14,340,671	12,680,894	86,567	-	12,767,461
Transfers								
Transfer from Stage 1 to Stage 2	(123,461)	123,461	-	-	(182,817)	182,817	-	-
New financial assets originated	4,686,361	-	-	4,686,361	16,073,629	-	-	16,073,629
Repayments and other movements	(9,626,756)	(89,302)	-	(9,716,058)	(14,434,666)	(65,753)	-	(14,500,419)
Gross carrying amount as at 31 December	9,073,184	237,790	-	9,310,974	14,137,040	203,631	-	14,340,671

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Gross carrying amount (continued)

	2022				2021			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
<i>Off-balance sheet items</i>								
At 1 January	50,120,172	6,081,088	1,241,087	57,442,347	49,113,388	4,258,429	2,381,713	55,753,530
Transfers								
Transfer from Stage 1 to Stage 2	(3,874,507)	3,874,507	-	-	(3,809,733)	3,809,733	-	-
Transfer from Stage 1 to Stage 3	(203)	-	203	-	-	-	-	-
Transfer from Stage 2 to Stage 3	-	(59,846)	59,846	-	-	(16,140)	16,140	-
Transfer from Stage 3 to Stage 2	-	15,932	(15,932)	-	-	-	-	-
Transfer from Stage 2 to Stage 1	591,762	(591,762)	-	-	182,400	(182,400)	-	-
New financial assets originated	41,738,183	-	-	41,738,183	20,878,779	-	-	20,878,779
Repayment and other movements	(36,678,189)	(4,970,801)	(170,491)	(41,819,481)	(16,244,662)	(1,788,534)	(1,156,766)	(19,189,962)
At 31 December	51,897,218	4,349,118	1,114,713	57,361,049	50,120,172	6,081,088	1,241,087	57,442,347

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Write-off policy

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

Modification of financial assets

The Group modifies terms of loans provided to customers from time-to-time primarily due to ongoing client needs, commercial renegotiations or for managing distressed loans. The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial, it does not result in derecognition of the original asset. The Group may determine that credit risk has significantly improved after restructuring, and such assets are moved from Stage 3 to Stage 2 (Lifetime ECL) to Stage 1 (12 month ECL). This is only done when modified assets have performed in accordance with the new terms for twelve consecutive months or more. The gross carrying amounts of modified financial assets held at 31 December 2022 (31 December 2021: gross carrying amount of AED 2.9 billion with a modification loss of AED 43 million) was not material.

Operational risk management

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Operational Risk Governance

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

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

Operational risk management follows three lines of defence model;

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

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

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

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

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

Operational Risk Appetite

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Operational Risk Management Framework

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Incident management

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

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

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

Market Risk Management

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

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Market risk management (continued)

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

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

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

In 2022, VaR was being calculated regularly and as of 31 December 2022, the 99% 1-day VaR was estimated at USD 1.29 million (31 December 2021: USD 1.62 million) for the bank wide market risk positions (stemming mainly from proprietary trading in interest rates products, equities and FX net open position). The Bank’s VaR model considers FX risk in all currencies, including GCC pegged currencies except USD and AED.

There has been no significant change to the Group’s exposure to market risks or the way these risks are managed and measured.

a. Counterparty Credit Risk

Counterparty Credit Risk is one of the most significant risks in OTC derivatives trading and securities financing transaction (SFTs) related activities. These risks are further sub categorized into two forms:

i. Pre-Settlement Risk

Counterparty credit risk is defined as the risk attributable to the downgrading and/or insolvency of a counterparty on its obligations prior to the final settlement of the transaction’s cash flow. Internally the Group manages and monitors the exposure to this risk by defining controls and limits around a ‘peak future exposure’ (PFE) measure and in many cases by collateralizing facilities under Credit Support Annex (CSA). PFE is an estimate of the amount, at a 95 % confidence level, a counterparty may owe over the life of a derivative transaction (or portfolio of transactions).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Market risk management (continued)

a. Counterparty Credit Risk (continued)

The Group further measures a net Credit Value Adjustment (“CVA”) on all outstanding OTC derivative contracts to account for market value of ‘credit risk’ due to any failure to perform on contractual agreements by a counterparty. CVA is a function of our expected exposure to counterparts, probability of default and recovery rates. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit losses.

ii. Settlement Risk

Settlement Risk arises when a bank, exchanges securities or cash payments to a counterparty on a value date and is unable to verify that payment or securities have been received in exchange until after it has paid or delivered its side of the transaction. The bank manages this exposure by dealing preferentially on a DvP/PvP basis or by defining control mechanism around settlement limits at a counterparty level.

Climate risk

The Group recognizes Climate risk as an emerging risk to the Group’s assets, business, and operations. Climate risk is the risk of loss emanating from Climate change – the long-term shifts in temperatures and weather patterns. These changes occur naturally and in the recent years, have mainly been driven by human activities such as burning of fossil fuels. Climate risk is likely to have an impact on the principal risk categories discussed above (ie., credit, market, operational and liquidity risks), however, due to its pervasive nature has been identified and monitored by the Group on an overall basis.

The Group is actively working towards establishing the approach for managing Climate risk including defining a set of Sustainability Performance Indicators (SPIs), Climate risk governance, financial disclosures, and guidelines for identifying relevant risk factors. The Group is also working towards meeting stipulated regulatory reporting requirements in the relevant jurisdictions.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Market risk management (continued)

Libor transition

The Group has been actively progressing the transition away from LIBOR to Alternative Reference Rates (ARR) under the supervision of a cross-functional working committee which includes representatives from Risk, Finance, Technology, Legal, Marketing and relevant business units. The transition of LIBOR increases the execution and operational risk of the Group and the approach implemented by the Group for the transition incorporates the risks associated. The Group has partnered with an external consultancy and is following the recommended practices from ARR Working Groups in USA and UK.

Over 2021, the Group conducted an impact assessment across operational, financial, and legal dimensions before establishing the transition mechanism for all LIBOR-linked assets and liabilities including necessary changes to systems and processes, inclusion of appropriate fallback provisions in LIBOR-linked contracts and introduction of internal and external LIBOR transition awareness programs. These steps enabled the Group to adhere to the first milestone of 31 December 2021 relating to the cessation of UK, Euro, JPY, CHF LIBOR Rates and certain USD LIBOR rates. At this point, the Group also discontinued issuance of new positions linked to USD LIBOR.

Over the course of 2022, the Group has commenced the process of negotiating impacted contracts with clients as well as continuing to engage in awareness programs. These activities are expected to conclude in-line with the final global transition milestone related to cessation of USD-LIBOR rates, currently scheduled for 30 June 2023.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Libor transition (continued)

The Group has commenced use of the following ARR for its floating rate assets and liabilities denominated in currencies impacted by LIBOR transition:

LIBOR	Tenor	Alternative Reference Rate	Effective date	
			Existing contracts	New contracts
USD LIBOR	ON, 1M, 3M, 6M, 12M	SOFR	1 July 2023	1 January 2022
USD LIBOR	1W, 2M	SOFR	1 January 2022	1 January 2022
EUR LIBOR	All	ESTR	1 January 2022	1 January 2022
GBP LIBOR	All	SONIA	1 January 2022	1 January 2022
CHF LIBOR	All	SARON	1 January 2022	1 January 2022
JPY LIBOR	All	TONA	1 January 2022	1 January 2022

Necessary systems and process changes have been implemented to facilitate the use of Alternative Reference Rates in client offerings, including the use of simple rate, compounded rate with various options of payment notice conventions (lookback, lockout and payment delay) and credit adjustment spread.

External communication program is in place and impacted clients/counterparties are being contacted for negotiation of the changes to existing contracts as these become due. The external communication program has commenced and will be running until the final publication date of LIBOR on 30 June 2023.

Financial instruments impacted by IBOR reform

The financial crisis of 2008-2009, followed by the reduced activity in LIBOR, indicated that the future of LIBOR was no longer sustainable. In March 2021, the cessation of most LIBOR tenors was confirmed by the FCA (Financial Conduct Authority).

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Libor transition (continued)

Exposures impacted by the LIBOR Transition as at 31 December 2022 are summarized in the table below:

	31 December 2022 AED'000
Non-derivative financial assets	15,192,773
Deposits and balances due from banks	2,129,479
Loans and advances measured at amortized cost	13,063,294
Non-derivative financial liabilities	783,965
Medium term loans	783,965
Derivatives¹	25,177,639
Cross currency swap	1,247,248
Interest rate swap	23,930,391

As at 31 December 2022, the Group did not hold any off-balance sheet commitments and financial guarantees linked to LIBOR. In addition, as at 31 December 2022 the Group did not have any exposure to non-USD LIBOR-linked financial instruments.

Hedge accounting

As at 31 December 2022 and 2021, the Group did not hold any LIBOR-linked hedging instruments.

¹ Represents 'Notional' value of derivative contracts

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Interest rate risk management

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

The Group uses simulation-modelling tools to measure and monitor interest rate sensitivity. The results are analysed and monitored by the Assets and Liabilities Committee (“ALCO”). Since majority of the Group’s assets are floating rate, deposits and loans generally are repriced within a short period of each other providing a natural hedge, which reduces interest rate risk exposure. Moreover, the majority of the Group’s assets and liabilities reprice within one year, thereby further limiting interest rate risk. The Group also has a significant current and savings account balances in deposits which are largely interest free.

The impact of 50 basis points sudden movement in benchmark interest rate on net interest income over a 12 months period as at 31 December 2022 would be a decrease in net interest income by 4% (in case of decrease of interest rates) and would have been an increase in net interest income by 4.1% (in case of increase of interest rates) [31 December 2021: -3.5% and +6.6%] respectively.

During the year ended 31 December 2022, the effective interest rate on due from banks and certificates of deposits with central banks was 2.6% (31 December 2021: 1.2%), on loans and advances measured at amortised cost 4.6% (31 December 2021: 3.6%), on customers’ deposits 1.1% (31 December 2021: 1.0%) and on due to banks (including repurchase agreements) 2.0% (31 December 2021: 0.6%).

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

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Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2022							
Assets							
Cash and balances with central banks	24,010,142	-	29,267	-	-	7,396,521	31,435,930
Deposits and balances due from banks	18,478,328	5,515,453	2,074,250	721,303	384	2,056,730	28,846,448
Other financial assets measured at fair value	1,833,704	94,958	140,560	812,769	5,888,202	1,659,572	10,429,765
Other financial assets measured at amortised cost	6,893,955	908,233	1,596,865	4,120,392	2,903,502	-	16,422,947
Loans and advances measured at amortised cost	60,324,877	3,226,788	1,604,933	6,624,244	1,608,671	2,240,831	75,630,344
Islamic financing and investment products measured at amortised cost	7,975,415	247,638	323,651	1,384,820	2,445,607	2,295,766	14,672,897
Acceptances	-	-	-	-	-	9,310,974	9,310,974
Other assets	-	-	-	-	-	6,799,304	6,799,304
Reinsurance contract assets	-	-	-	-	-	3,128,009	3,128,009
Investment in associate	-	-	-	-	-	43,633	43,633
Investment properties	-	-	-	-	-	464,840	464,840
Property and equipment	-	-	-	-	-	1,395,485	1,395,485
Intangible assets	-	-	-	-	-	230,667	230,667
Total assets	119,516,421	9,993,070	5,769,526	13,663,528	12,846,366	37,022,332	198,811,243

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non- interest bearing items AED'000	Total AED'000
31 December 2022							
Liabilities and equity							
Deposits and balances due to banks	18,172,317	795,035	670,140	-	-	8,761,964	28,399,456
Repurchase agreements with banks	1,452,959	473,223	-	-	-	-	1,926,182
Customers' deposits	34,129,897	3,415,872	4,910,109	1,852,514	261,770	54,257,160	98,827,322
Islamic customers' deposits	5,941,328	1,237,186	4,400,590	43,800	-	3,356,037	14,978,941
Acceptances	-	-	-	-	-	9,310,974	9,310,974
Other liabilities	-	-	-	-	-	8,253,044	8,253,044
Medium-term loans	311,623	-	112,525	4,761,752	37,665	-	5,223,565
Subordinated debt	-	-	-	-	1,831,027	-	1,831,027
Insurance contract liabilities	-	-	-	-	-	5,642,093	5,642,093
Equity attributable to shareholders of the Parent	-	-	-	-	-	23,541,324	23,541,324
Non-controlling interest	-	-	-	-	-	877,315	877,315
Total liabilities and equity	60,008,124	5,921,316	10,093,364	6,658,066	2,130,462	113,999,911	198,811,243
On balance sheet gap	59,508,297	4,071,754	(4,323,838)	7,005,462	10,715,904	(76,977,579)	-
Off balance sheet gap	(1,160,414)	289,293	870,474	647	-	-	-
Cumulative interest rate sensitivity gap	58,347,883	62,708,930	59,255,566	66,261,675	76,977,579	-	-

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non- interest bearing items AED'000	Total AED'000
31 December 2021							
Assets							
Cash and balances with central banks	7,831,318	-	-	-	-	9,676,433	17,507,751
Deposits and balances due from banks	15,576,629	6,116,818	3,778,812	621,417	-	2,711,419	28,805,095
Other financial assets measured at fair value	3,636,168	1,327,272	4,578,534	653,687	4,722,342	1,523,120	16,441,123
Other financial assets measured at amortised cost	1,820,947	538,198	1,114,614	3,409,710	3,394,355	-	10,277,824
Loans and advances measured at amortised cost	51,737,556	4,031,722	1,780,863	5,891,022	1,880,860	1,110,547	66,432,570
Islamic financing and investment products measured at amortised cost	9,716,335	697,368	220,761	1,193,551	1,658,015	1,567,424	15,053,454
Acceptances	-	-	-	-	-	14,340,671	14,340,671
Other assets	-	-	-	-	-	3,290,085	3,290,085
Reinsurance contract assets	-	-	-	-	-	2,699,966	2,699,966
Investment in associate	-	-	-	-	-	34,809	34,809
Investment properties	-	-	-	-	-	462,829	462,829
Property and equipment	-	-	-	-	-	1,426,096	1,426,096
Intangible assets	-	-	-	-	-	281,336	281,336
Total assets	<u>90,318,953</u>	<u>12,711,378</u>	<u>11,473,584</u>	<u>11,769,387</u>	<u>11,655,572</u>	<u>39,124,735</u>	<u>177,053,609</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non- interest bearing items AED'000	Total AED'000
31 December 2021							
Liabilities and equity							
Deposits and balances due to banks	6,488,833	1,502,705	2,143,798	3,000	-	9,428,150	19,566,486
Repurchase agreements with banks	1,418,214	26,510	782,459	501,964	-	-	2,729,147
Customers' deposits	23,646,224	7,181,847	8,953,601	2,109,895	278,037	44,981,298	87,150,902
Islamic customers' deposits	2,328,279	4,474,283	4,264,002	27,402	-	3,238,121	14,332,087
Acceptances	-	-	-	-	-	14,340,671	14,340,671
Other liabilities	-	-	-	-	-	6,028,308	6,028,308
Medium-term loans	472,660	80,806	1,054,812	5,140,175	40,906	525,760	7,315,119
Insurance contract liabilities	-	-	-	-	-	4,566,602	4,566,602
Equity attributable to shareholders of the							
Parent	-	-	-	-	-	20,228,225	20,228,225
Non-controlling interest	-	-	-	-	-	796,062	796,062
Total liabilities and equity	<u>34,354,210</u>	<u>13,266,151</u>	<u>17,198,672</u>	<u>7,782,436</u>	<u>318,943</u>	<u>104,133,197</u>	<u>177,053,609</u>
On balance sheet gap	55,964,743	(554,773)	(5,725,088)	3,986,951	11,336,629	(65,008,462)	-
Off balance sheet gap	(26,180)	-	26,180	-	-	-	-
Cumulative interest rate sensitivity gap	<u>55,938,563</u>	<u>55,383,790</u>	<u>49,684,882</u>	<u>53,671,833</u>	<u>65,008,462</u>	<u>-</u>	<u>-</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Currency risk management

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

	31 December 2022			31 December 2021		
	Net spot position	Net Forward position	Net Position	Net spot position	Net Forward position	Net Position
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
U.S. Dollars	15,947,133	(4,954,483)	10,992,650	8,387,427	(11,162,514)	(2,775,087)
Qatari Riyals	105,137	(279,698)	(174,561)	50,218	(210,715)	(160,497)
Pound Sterling	(907,395)	907,756	361	(782,678)	793,643	10,965
Euro	(5,104,078)	5,094,078	(10,000)	(1,393,027)	1,418,931	25,904
Bahrain Dinar	1,746,687	(1,621,653)	125,034	507,291	(630,199)	(122,908)
Saudi Riyal	(1,001,668)	1,006,271	4,603	(6,342,158)	6,293,524	(48,634)
Japanese Yen	(631,151)	642,576	11,425	(1,081,437)	1,090,335	8,898
Swiss Francs	6,366	46	6,412	533	2	535
Kuwaiti Dinar	(49,999)	(132,514)	(182,513)	(2,533)	(180,679)	(183,212)
Chinese Yuan	(2,191,059)	2,360,431	169,372	(1,363,960)	1,427,630	63,670
Other	48,553	(601,296)	(552,743)	319,272	118,028	437,300
Total	7,968,526	2,421,514	10,390,040	(1,701,052)	(1,042,014)	(2,743,066)

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

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

Liquidity risk management

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

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

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

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

1. **Board of Directors oversight** through review and approval of Liquidity Management Policy and definition of Liquidity Risk Tolerance Limits
2. **Strategies, policies and practices developed by the ALCO** to manage liquidity risk in accordance with the Board of directors approved risk tolerance and ensure that the bank maintains sufficient liquidity.

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

Mashreqbank's Head Office ("HO") and International Banking Group ("IBG") Asset and Liability Committees ("ALCO") are responsible for formulating policies for implementing the Board approved liquidity risk appetite. In this regard, the following policies, procedures and systems have been implemented:

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

a) Robust ALCO oversight through timely, pertinent information and analysis

ALCOs have a broad range of authority delegated by the Board of Directors to manage the Group's asset and liability structure and funding strategy. ALCOs meet on a regular basis to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio compliance, funding and repricing gaps and general domestic and international economic and financial market conditions. ALCOs determine the structure, responsibilities and controls for managing liquidity risk and for overseeing the liquidity position at all locations. The Asset Liability Management ("ALM") function in the Group is then responsible for implementing the ALCO policies.

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

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

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

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

c) Gap limits

The minimum size of net placements in highly liquid money market instruments and HQLA bond portfolio is based on stress testing exercise, which takes into account the stability of deposits from different sources as well as contingent funding requirements of overseas branches. The Money Book and HQLA deployments are also required to adhere to gap limits, to ensure that the bank is in a position to meet short term and intraday liquidity needs.

d) Liquidity risk management over different time horizons and currencies

The time horizons and activities over which the Bank manages liquidity risk range from intraday basis, day-to-day cashflow movements, fund raising capacity over short and medium-term (up to one year) as well as vulnerabilities to events, activities and strategies beyond one year that can put a significant strain on the Bank's cash generation capability.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

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

Mashreqbank develops its funding plan as part of its annual planning exercise. The plan places 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 2022 has an outstanding balance of AED 5.2 billion (31 December 2021: AED 7.32 billion) [Note 19] in medium-term loans. The Bank also established Certificate of Deposit (CD) programmes through its London branch in 2014 and its Hong Kong Branch in 2018.

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

Stress tests enable the Bank to analyze the impact of stress scenarios on its consolidated group wise liquidity position as well as on the liquidity position of individual entities. The stress scenarios have been designed to incorporate the major funding and market liquidity risks to which the Bank is exposed. ALCO and the Board reviews the bank's choice of scenarios and related assumptions as well as the results of the stress tests.

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

Mashreqbank has a formal contingency funding plan ("CFP"), which is updated, reviewed and approved by the HO ALCO and the Board on an annual basis. The CFP provides a list of liquidity generation tools which would be used to counter liquidity stress at different stages of the contingency.

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

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

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

The recovery in the oil prices along with renewed access to the international capital markets by GCC sovereigns and financial institutions however, have eased the concerns regarding GCC Governments' finances and banking sector's liquidity. In this environment, Mashreqbank has taken measures to manage its liquidity carefully. The Bank's ALCO meets regularly with primary focus on monitoring cash flows and forecasts across all jurisdictions in which the Bank operates. The Bank has strengthened its liquidity buffer significantly through raising deposits.

Prudent liquidity management by the Bank, has helped to ensure that the Bank is able to meet its clients' banking services requirements effectively and without disruption. Recently, while high inflation readings as well as the Russia Ukraine crisis have negatively impacted the US and European capital markets, they have not had a discernable impact on liquidity in the UAE due to the accompanying rise in oil prices and the resultant increase in Government and Related Enterprises ("GRE") cash balances.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

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

Maturity profile:

The maturity profile of assets, liabilities and equity as at 31 December 2022 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	31,435,930	-	-	-	-	31,435,930
Deposits and balances due from banks	16,472,142	6,215,754	3,160,179	2,998,373	-	28,846,448
Other financial assets measured at fair value	2,897,768	94,958	140,560	812,769	6,483,710	10,429,765
Other financial assets measured at amortised cost	6,891,548	907,931	1,596,417	4,119,237	2,907,814	16,422,947
Loans and advances measured at amortised cost	23,749,242	5,878,467	3,897,573	19,542,951	22,562,111	75,630,344
Islamic financing and investment products measured at amortised cost	5,794,521	600,367	337,571	2,615,141	5,325,297	14,672,897
Acceptances	6,746,930	1,533,632	790,045	240,145	222	9,310,974
Other assets	4,729,576	1,452,740	161,436	118,758	336,794	6,799,304
Reinsurance contract assets	953,991	621,913	714,101	812,311	25,693	3,128,009
Investment in associate	-	-	-	-	43,633	43,633
Investment properties	-	-	-	-	464,840	464,840
Property and equipment	-	-	-	-	1,395,485	1,395,485
Intangible assets	-	-	-	-	230,667	230,667
Total assets	99,671,648	17,305,762	10,797,882	31,259,685	39,776,266	198,811,243

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	26,934,282	795,035	670,139	-	-	28,399,456
Repurchase agreements with banks	1,452,959	473,223	-	-	-	1,926,182
Customers' deposits	87,938,308	3,791,476	4,959,200	1,872,480	265,858	98,827,322
Islamic customers' deposits	9,297,345	1,237,206	4,400,590	43,800	-	14,978,941
Acceptances	6,746,930	1,533,632	790,046	240,145	221	9,310,974
Other liabilities	7,134,352	347,442	385,466	166,891	218,893	8,253,044
Medium-term loans	311,623	-	112,525	4,761,752	37,665	5,223,565
Subordinated debt	-	-	-	-	1,831,027	1,831,027
Insurance contract liabilities	1,746,174	906,027	955,395	1,522,449	512,048	5,642,093
Equity attributable to shareholders of the Parent	-	-	-	-	23,541,324	23,541,324
Non-controlling interest	-	-	-	-	877,315	877,315
Total liabilities and equity	141,561,973	9,084,041	12,273,361	8,607,517	27,284,351	198,811,243
Guarantees	7,624,106	3,092,458	4,918,972	4,796,054	10,643,541	31,075,131
Letters of credit	11,824,239	2,821,602	871,747	180,835	-	15,698,423
Total	19,448,345	5,914,060	5,790,719	4,976,889	10,643,541	46,773,554

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The maturity profile of assets, liabilities and equity as at 31 December 2021 were as follows:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Assets						
Cash and balances with central banks	17,507,751	-	-	-	-	17,507,751
Deposits and balances due from banks	15,439,040	5,434,342	5,104,844	2,826,869	-	28,805,095
Other financial assets measured at fair value	4,240,414	1,367,214	4,607,737	653,687	5,572,071	16,441,123
Other financial assets measured at amortised cost	1,839,475	538,146	1,114,300	3,408,507	3,377,396	10,277,824
Loans and advances measured at amortised cost	19,994,724	5,047,357	3,746,344	18,142,111	19,502,034	66,432,570
Islamic financing and investment products measured at amortised cost	7,086,840	663,087	463,508	2,025,467	4,814,552	15,053,454
Acceptances	3,847,093	4,528,949	5,831,140	133,489	-	14,340,671
Other assets	2,525,122	194,799	359,255	78,028	132,881	3,290,085
Reinsurance contract assets	781,827	517,302	595,935	784,907	19,995	2,699,966
Investment in associate	-	-	-	-	34,809	34,809
Investment properties	-	-	-	-	462,829	462,829
Property and equipment	-	-	-	-	1,426,096	1,426,096
Intangible assets	-	-	-	-	281,336	281,336
Total assets	73,262,286	18,291,196	21,823,063	28,053,065	35,623,999	177,053,609

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	15,978,784	1,440,904	2,143,798	3,000	-	19,566,486
Repurchase agreements with banks	1,418,213	26,510	782,459	501,965	-	2,729,147
Customers' deposits	69,069,399	6,962,385	8,839,799	2,003,605	275,714	87,150,902
Islamic customers' deposits	5,566,381	4,474,303	4,264,002	27,401	-	14,332,087
Acceptances	3,847,093	4,528,949	5,831,140	133,489	-	14,340,671
Other liabilities	4,831,789	236,957	576,549	268,974	114,039	6,028,308
Medium-term loans	457,792	80,806	1,542,065	5,193,550	40,906	7,315,119
Insurance contract liabilities	1,405,261	804,938	870,607	1,081,089	404,707	4,566,602
Equity attributable to shareholders of the Parent	-	-	-	-	20,228,225	20,228,225
Non-controlling interest	-	-	-	-	796,062	796,062
Total liabilities and equity	<u>102,574,712</u>	<u>18,555,752</u>	<u>24,850,419</u>	<u>9,213,073</u>	<u>21,859,653</u>	<u>177,053,609</u>
Guarantees	9,102,914	2,854,797	4,966,230	6,368,103	10,414,471	33,706,515
Letters of credit	10,322,318	1,196,716	3,659,300	607,451	-	15,785,785
Total	<u>19,425,232</u>	<u>4,051,513</u>	<u>8,625,530</u>	<u>6,975,554</u>	<u>10,414,471</u>	<u>49,492,300</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligations as at 31 December 2022.

	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	26,934,283	795,035	670,138	-	-	28,399,456
Repurchase agreements with banks	1,452,959	473,223	-	-	-	1,926,182
Customers' deposits	87,999,074	3,836,664	5,109,008	2,148,095	274,660	99,367,501
Islamic customers' deposits	9,347,729	1,271,425	4,578,610	46,464	-	15,244,228
Acceptances	6,746,930	1,533,632	790,045	240,145	222	9,310,974
Other liabilities	7,134,352	347,442	385,466	166,891	218,893	8,253,044
Medium-term loans	316,872	-	114,248	4,826,812	38,351	5,296,283
Subordinated debt	-	-	-	-	1,831,027	1,831,027
Insurance contract liabilities	1,746,174	906,027	955,395	1,522,449	512,048	5,642,093
Equity attributable to shareholders of the Parent	-	-	-	-	23,541,324	23,541,324
Non-controlling interest	-	-	-	-	877,315	877,315
Total liabilities and equity	141,678,373	9,163,448	12,602,910	8,950,856	27,293,840	199,689,427

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligations as at 31 December 2021.

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Total AED'000
Liabilities and equity						
Deposits and balances due to banks	15,978,784	1,440,904	2,143,798	3,000	-	19,566,486
Repurchase agreements with banks	1,418,213	26,510	782,459	501,965	-	2,729,147
Customers' deposits	69,087,463	7,001,277	8,942,058	2,416,153	290,812	87,737,763
Islamic customers' deposits	5,573,160	4,532,835	4,490,105	28,042	-	14,624,142
Acceptances	3,847,093	4,528,949	5,831,140	133,489	-	14,340,671
Other liabilities	4,831,789	236,957	576,549	268,975	114,038	6,028,308
Medium-term loans	459,999	80,838	1,550,939	5,262,919	41,606	7,396,301
Insurance contract liabilities	1,405,261	804,938	870,607	1,081,089	404,707	4,566,602
Equity attributable to shareholders of the Parent	-	-	-	-	20,228,225	20,228,225
Non-controlling interest	-	-	-	-	796,062	796,062
Total liabilities and equity	<u>102,601,762</u>	<u>18,653,208</u>	<u>25,187,655</u>	<u>9,695,632</u>	<u>21,875,450</u>	<u>178,013,707</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk

The Group has a robust process for managing risks in accordance with the groupwide risk appetite. Enterprise Risk Management (ERM) department supervises the Executive Risk Committee and the Risk Management Framework. The Executive Risk Committee is deliberately designed to be a second line of defense body but composed of members who are also in a position to take immediate executive actions to address risk issues. The Executive Risk Committee convenes at least on a quarterly basis. The Group has an ongoing commitment to maintain an effective risk culture, as it is critical to the Group's success in maintaining and developing an effective risk management system. Accountabilities for the implementation and oversight of particular risk are aligned with individual executives. The risk owners are responsible for ensuring that the proper level of review and confirmation of the risk and control ratings/evaluations have been undertaken. The Group assess the exposure to climate changes risk by implementing scenario analysis and stress testing based on outcome of the modeling of natural catastrophic events exposure and by reviewing an impact on group's profitability and solvency. The scenarios analysis covers different lines of businesses, countries, perils and return data. Overall, the outcome shows that the Group is well capitalized to reasonably absorb most of the shocks from the various scenarios included into the stress test.

The Executive Committee oversees the management of insurance risks through its Risk Committee, Reinsurance Committee, Reserve Committee, Large and strategic accounts Forum and Audit Committee. Each of these committees has a distinct role to play within the risk governance framework.

Insurance risk is the risk arising from the uncertainty around the actual experience and/or policyholder behavior being materially different than expected at the inception of an insurance contract. These uncertainties include the amount and timing of cash flows from premiums, commissions, expenses, claims and claim settlement expenses paid or received under a contract.

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk (continued)

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.

The Group manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

The distribution of insurance contract liabilities and reinsurance contract assets as at 31 December 2022 and 31 December 2021 is as follows:

	2022 AED'000	2021 AED'000
Insurance contract liabilities		
UAE	5,429,242	4,210,037
Other GCC and Middle East countries	212,851	356,565
	<u>5,642,093</u>	<u>4,566,602</u>
Reinsurance contract assets		
UAE	2,995,022	2,438,103
Other GCC and Middle East countries	132,987	261,863
	<u>3,128,009</u>	<u>2,699,966</u>

Frequency and Severity of Claims

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk (continued)

Sources of Uncertainty in the Estimation of Future Claim Payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims' exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established. The amount of insurance claims is in certain cases sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Assuming all the other factors remained constant; an impact of an increase / decrease of 1% in claims will result in corresponding increase / decrease in net claims incurred by AED 15.1 million (2021: AED 15.5 million).

Developments during the year

Lloyd's syndicate

Syndicate 2880 was launched under the Syndicate-in-a-box initiative ("SIAB"). On 10 February 2022, OIC's Syndicate 2880 received Lloyd's approval to commence underwriting and has started operations under interim operating model where underwriting is carried out from London, United Kingdom. OIC has incorporated Oman Insurance Management Services Limited (the "Service company") in Dubai International Financial Centre ("DIFC") as a fully owned subsidiary of Oman Insurance Company P.S.C. The Service company will exclusively underwrite the business on behalf of OIC's Syndicate 2880 as per the delegated authority from the Syndicate 2880 upon approval from Lloyd's of London. The Service company received its license from the Dubai Financial Service Authority ("DFSA") on 18 October 2022 to commence its operations and subsequently, effective 1 January 2023, the Service company received Lloyd's approval to commence its underwriting on behalf of the Syndicate 2880. As part of SIAB arrangement, OIC has also incorporated "OIC Corporate Member Limited", a private limited company in England and Wales, United Kingdom as a fully owned subsidiary of Oman Insurance Company P.S.C.

As part of SIAB arrangement, OIC on behalf of 'OIC Corporate Member Limited' has pledged certain bonds having nominal value of USD 31.88 million (equivalent to AED 117.08 million) to be held at Lloyd's deposit with the beneficial ownership remains with OIC. The net book value of these bonds is AED 129.03 million as at 30 September 2022.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk (continued)

Portfolio acquisition

On 23 February 2022, Sukoon and Assicurazioni Generali S.P.A acting through its branch office in the UAE ("Generali UAE") signed an agreement to transfer the unit linked life insurance portfolio of Generali UAE to Sukoon. The migration of the portfolio was completed on 21 November 2022 (portfolio transfer date) after obtaining necessary approvals from the regulators (the CBUAE and The Institute for the Supervision of Insurance (IVASS) in Italy). On the portfolio transfer date, the Group recognised unit linked assets and unit linked liabilities amounting to AED 688,737 thousand each in the consolidated statement of financial position.

Sale of subsidiary

On 4 March 2022, a share sale and purchase agreement was signed between Oman Insurance Company P.S.C. (OIC) and VHV Reasürans A.Ş. – Istanbul, Turkey (a company of VHV Group – Hannover, Germany) for OIC to fully sell 100% shareholding in the Group's subsidiary Dubai Sigorta A.Ş., Turkey. The Company completed the transaction for the sale of its subsidiary, Dubai Sigorta A. Ş. After obtaining regulatory approval and subsequently shares were transferred on 14 June 2022 for a cash consideration of USD 26.64 million (AED 97.84 million).

The details of the sale of the subsidiary is as follows:

	As at 14 June 2022 AED'000
Cash consideration received	97,835
Carrying amount of net assets sold	(32,041)
Carrying amount of goodwill	(2,751)
Gain on sale before reclassification of foreign currency translation reserve	63,043
Reclassification of foreign currency translation reserve	(89,003)
Loss on sale of a subsidiary recognized in condensed consolidated income statement	(25,960)

Acquisition of ASCANA

On 19 December 2022, Sukoon has signed a sale and purchase agreement to acquire a majority stake (in excess of 93%) in Arabian Scandinavian Insurance Company (P.S.C.) – Takaful – Ascana Insurance (ASCANA) from the key shareholders of ASCANA who represent this stake. The transaction is expected to be completed by Q1 2023 subject to regulatory approvals from SCA, CBUAE and DFM. This transaction and its financial effect will be reflected in the consolidated financial statements once the transaction is completed.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact

IFRS 17, 'Insurance contracts' is applicable for annual reporting periods commencing on 1 January 2023 and the Group expects to first apply IFRS 17 on that date. IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts, reinsurance contracts and investment contracts with direct participation features ("DPF"). The key objectives of IFRS 17 are comparable recognition and measurement of contracts in the scope of the standard, the recognition of insurance service results based on the services provided to the policyholder and provision of disclosures that will enable the users of the financial statements to assess the impact of these contracts on the financial position, financial results and cash flows of the entity. The standard distinguishes between the sources of profit and quality of earnings between insurance service results and insurance finance income and expense (reflecting the time value of money and financial risk).

IFRS 17 also allows entities, in limited circumstances, that have applied IFRS 9 'Financial instruments' to annual reporting period before the initial application of IFRS 17, to redesignate their financial assets associated with insurance. The Group is in the process of assessing whether any financial assets will be redesignated.

Both the Group's audit committee and the IFRS 17 steering committee provide oversight and governance over the implementation of the IFRS 17 project. The steering committee is comprised of executive management as well as senior management from various functions including finance, actuarial, risk, information technology and reinsurance. Accounting policy papers, actuarial methodologies and disclosure requirements have been defined and are being implemented throughout the Group. The IFRS 17 project team remains up to date, and closely monitors, all technical developments from the IASB and industry to evaluate the effects of such developments. Where applicable, the policy and methodology papers are updated to reflect any changes in requirements.

The Group has made significant progress in the implementation of IFRS 17 and working on following areas to complete the transition to IFRS 17;

- Configuring remaining system integration, including policy choices and enhance key controls required to implement IFRS 17.
- Produce and request business and external auditor sign-off of transition balances.
- Finalise the layout and disclosure of the IFRS 17 compliant annual financial statements.
- Finalise the management reporting and key performance measures.
- Continue engaging with the executive committee and business through various training initiatives.
- Finalise and implement future financial and data governance processes and accountabilities.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

As the Group will be impacted by the application of IFRS 17. Below is an assessment of the expected impact. The assessment is preliminary because not all the transition work has been finalised.

Measurement model

Measurement is implemented on the basis of groups of contracts. To allocate individual insurance contracts to groups of contracts, an entity first needs to define portfolios which include contracts with similar risks and that are managed together. These portfolios are to be subdivided into groups of contracts on the basis of profitability and annual cohorts. IFRS 17 consists of 3 measurement models:

- The general measurement model, also known as the building block approach, consists of the fulfilment cash flows and the contractual service margin.
- The variable fee approach is a mandatory modification of the general measurement model regarding the treatment of the contractual service margin in order to accommodate insurance contracts with direct participating features.
- The premium allocation approach is an optional simplified approach for the measurement of the liability for remaining coverage. An entity may choose to use when the premium allocation approach provides a measurement which is not materially different from that under the general measurement model or if the coverage period of each contract in the group of insurance contracts is one year or less. Under the premium allocation approach, the liability for remaining coverage is measured as the amount of premiums received net of acquisition cash flows paid, less the net amount of premiums and acquisition cash flows that have been recognized in profit or loss over the expired portion of the coverage period based on the passage of time.

The measurement of the liability for incurred claims is identical under all three measurement models, apart from the determination of locked-in interest rates used for discounting. An explicit risk adjustment for non-financial risk is estimated separately from the other estimates for the liability for incurred claims. This risk adjustment represents compensation required for bearing uncertainty about the amount and timing of the cash flows that arises from non-financial risk. The risk adjustment forms part of the fulfilment cash flows for a group of insurance contracts.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

The Group applies the premium allocation approach (PAA) to groups of insurance contracts that it issues and groups of reinsurance contracts that it holds where the coverage period is 12 months or less. The Group performed PAA eligibility assessment for the groups of contracts where the coverage period is more than 12 months. Based on the assessment performed, the Group expects all of its contracts to be eligible for PAA measurement model, except for long term individual life business which will be measured under the GMM. The Group plans to apply the GMM for long term individual life insurance policies and the VFA for unit linked insurance policies.

Insurance revenue and insurance service expenses are recognised in the statement of comprehensive income based on the concept of services provided during the period. The standard requires losses to be recognised immediately on contracts that are expected to be onerous. For insurance contracts measured under the PAA, it is assumed that contracts are not onerous at initial recognition, unless facts and circumstances indicate otherwise. The Group's focus is to grow a profitable and sustainable business and does not anticipate the recognition of onerous contracts except where the following have been identified:

- Relevant pricing decisions.
- Initial stages of a new business acquired where the underlying contracts are onerous.
- Any other strategic decisions the board considers appropriate.

Accounting policy choices adopted by the Group

Insurance acquisition cash flows:

The Group capitalises insurance acquisition cash flows for all contracts. The Group allocates the acquisition cash flows to groups of insurance contracts issued or expected to be issued using a systematic and rational basis. The Group assesses the recoverability of the asset for insurance acquisition cash flows at each reporting period, if facts and circumstances indicate the asset may be impaired.

Liability for Remaining Coverage ("LRC") adjusted for financial risk and time value of money
The Group makes an allowance for time value of money on the LRC.

Liability for Incurred Claims ("LIC") adjusted for time value of money
The LIC will be discounted and adjusted for the time value of money.

Insurance finance income and expenses

The Group intends to include changes in discount rates and other financial changes within OCI.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

Disaggregation of risk adjustment

The Group will not disaggregate the change in risk adjustment for non-financial risk between a financial and non-financial portion and will include the entire change within the insurance service result.

Areas of significant judgements

The following are key judgements and estimates which the Group expects to apply as a result of IFRS 17.

Discount rates

The Group will use the bottom-up approach for groups of contracts other than long term individual life and top-down approach of long-term individual life contracts to derive the discount rates.

Under the bottom-up approach, the discount rate is determined as the risk-free yield, adjusted for differences in liquidity characteristics between the financial assets used to derive the risk-free yield and the relevant liability cash flows (known as an 'illiquidity premium'). The primary difficulty is deriving the illiquidity premium which is required to adjust the risk-free yield curve. The risk-free curve itself will either be derived by the Group from risk free assets in the market, or the Group may choose to apply a published risk-free curve.

Top-down approach starts with the determination of a reference portfolio. The reference portfolio yield will be taken as the yield on the underlying items to which the liability cashflows are linked.

Risk adjustment

The Group will estimate the risk adjustment using a confidence level (probability of sufficiency) approach. The Group will use stochastic techniques to estimate the probability distribution of the future cash flows which forms the basis for determining the risk adjustment.

Unit of account

Based on the contract review, the Group did not identify any contracts or arrangements that require combination, separation and aggregation which differ from recognition under IFRS 4 and IFRS 17.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

Modification and derecognition

An insurance contract may be modified, either by agreement between the parties or as result of regulation. If the terms are modified, an entity must derecognise the original insurance contract and recognise the modified contract as a new contract, if and only if certain conditions as prescribed in IFRS 17 are satisfied. The exercise of a right included in the terms of a contract is not a modification. Any contract modification that changes the accounting model or the applicable standard for measuring the components of the insurance contract, is likely to result in derecognition. If a contract modification meets none of the conditions for derecognition, any changes in cash flows caused by the modification are treated as changes in the estimates of the fulfilment cash flows. For contracts applying the premium allocation approach, any adjustments to premium receipts or insurance acquisition cash flows arising from a modification adjust the liability for remaining coverage and insurance revenue is allocated to the period for services provided (which would also require judgement in determining the period to which the modification applies).

Contractual Service Margin and Coverage units

Currently under IFRS 4, earned premiums are recognized as revenue proportionally over the period of coverage. Since PAA will be applicable for the majority of the portfolios, there will be no material change in recognition of revenue under IFRS 17.

For long term Individual Life portfolio, measured under the GMM, the Group will recognize a contractual service margin (CSM) which represents the unearned profit the group will earn as it provides service under those contracts. A coverage units methodology will be used for the release of the CSM. Based on the benefit for the Policy Holders, the applicable CSM release pattern will be determined by using coverage unit methodology which will reflect the benefit defined in the insurance contracts with the policy holders.

Investment component

The Group will identify the investment component of a contract by determining the amount that it would be required to repay to the policyholder in all scenarios, regardless of whether the insurance event occurs. Under IFRS 17, the investment components will be excluded from the insurance revenue and insurance service expenses.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

Contract boundaries

Under IFRS 17, the measurement of a group of contracts includes all of the future cash flows within the boundaries of each contract in a group. The period covered by the premiums within the contract boundary is the “coverage period”, which is relevant when applying IFRS 17 requirements.

For insurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligation that exist during the reporting period in which the Group can compel the policyholder to pay premium or has a substantive obligation to provide services. For reinsurance contracts, cash flows are within the contract boundary if they arise from substantive rights and obligation that exist during the reporting period in which the Group is compelled to pay amounts to the reinsurer or has a substantive right to receive services from the reinsurer.

Transition

On the date of initial application, 1 January 2023, IFRS 17 standard has to be applied retrospectively (i.e. using the Full Retrospective Approach) unless impracticable. Where the full retrospective approach is impracticable, IFRS 17 allows for alternative transition methods as follows.

- Modified retrospective approach: based on reasonable and supportable information available without undue cost and effort to the entity, certain modifications of requirements are applied to the extent their full retrospective application is not possible, but still with the objective to achieve the closest outcome to retrospective application possible; or
- Fair value approach: the CSM is determined as the positive difference between the fair value determined in accordance with IFRS 13 and the fulfilment cash flows (any negative difference would be recognized in retained earnings at the transition date).

Group has assessed that it is impractical to apply the full retrospective approach to groups of contracts or to an asset for insurance acquisition cash flows due to factors such as the impossibility of running models since the inception of the contracts, the lack of historical data, etc. The Group is currently assessing and finalising the transition approach to the groups of contracts.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Insurance Risk (continued)

IFRS 17 transition impact (continued)

Impact on transition to IFRS 17

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.

The assessment of the impacts on the Group's Consolidated Financial Statements is in progress. Although the work is well advanced as of the date of the publication of these Consolidated Financial Statements, it is not yet practicable to reliably quantify them.

Impact on presentation and disclosures on transition to IFRS 17

In the consolidated statement of financial position, deferred acquisition costs and insurance related receivables will no longer be presented separately but as part of the insurance liabilities. This change in presentation will lead to a reduction in total assets, offset by a reduction in total liabilities.

The amounts presented in the statement of financial performance relating to insurance revenue and the insurance service expenses, and insurance finance, income and expenses and corresponding reinsurance contracts held are disclosed within other income in the Group's consolidated financial statements.

IFRS 17 will significantly change how insurance contracts, reinsurance contracts and investment contracts with DPF are presented and disclosed in the Group's consolidated financial statements. The Group will be required to provide disaggregated qualitative and quantitative information about:

- Amounts recognised in its financial statements from insurance contracts issued and reinsurance contracts held within the scope of IFRS 17;
- Significant judgements, and changes in those judgements, when applying the standard; and
- The nature and extent of the risks from contracts within the scope of the standard.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Compliance Risk

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

In 2015, the Bank became aware that certain historical US dollar payment processing activities involving Sudan may have potentially breached US sanction laws in effect at the time. The Bank proactively cooperated with the UAE and the US regulators and appointed external legal advisors to assist in the review of these transactions, which occurred prior to March 2009, including compliance with US sanction laws as well as its own compliance processes. In 2018, the Bank formally submitted the findings of the review to the regulators in both the UAE and the US.

During the year ended 31 December 2021 the Bank reached a joint settlement with the Office of Foreign Assets Control (OFAC), the New York State Department of Financial Services (DFS) and the Federal Reserve Board of Governors (FRB). The settlement included a financial penalty of US\$100 million to be paid by the Bank to the DFS which was fully provided for and recognised as an expense in the consolidated financial statements for the year ended 31 December 2021. No separate financial penalty was levied by OFAC and FRB. Dialogue with another US agency on the same matter is ongoing and, based on legal advice, it is premature at this stage to determine if the Bank is likely to be subject to any further penalty or the quantum of the penalty. The Group, on a continuous basis, identifies and assesses such risks and recognizes provisions, in consultation with its legal counsel, in accordance with the accounting policy for provisions as disclosed in note 3.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Fair value measurements

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2021.

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	2022 AED'000	2021 AED'000				
Other financial assets measured at FVTPL						
Quoted debt investments	202,752	257,064	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	16,667	37,668	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	1,145,385	1,291,065	Level 2	Based on the recent similar transaction in market	None	Not Applicable
Funds	1,286,743	686,534	Level 2	Quoted prices in secondary market.	None	Not Applicable
Unquoted equity investments	707	1,113	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited / historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	2,652,254	2,273,444				

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at		Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	2022	2021				
	AED'000	AED'000				
Other financial assets measured at FVTOCI						
Quoted equity investments	699,587	577,857	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	-	559,930	Level 3	Based on the recent similar transaction in market	None	Not Applicable
Quoted debt investments	6,934,735	12,920,789	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	63,117	53,589	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
Funds	80,072	55,514	Level 2	Quoted prices in secondary market.	None	Not Applicable
	7,777,511	14,167,679				
	10,429,765	16,441,123				

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Fair value measurements (continued)

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

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

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

	2022 AED'000	2021 AED'000
At 1 January	1,113	1,112
Change in fair value	(406)	1
At 31 December	707	1,113

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

	2022 AED'000	2021 AED'000
At 1 January	613,519	615,541
Purchases	12,856	7,933
Disposals/matured	(573,611)	(1,118)
Change in fair value	10,353	(8,837)
At 31 December	63,117	613,519

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

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

	Carrying amount AED'000	Level 1 AED'000	Fair value Level 2 Level 3 AED'000 AED'000		Total AED'000
31 December 2022					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	<u>16,451,362</u>	<u>13,843,005</u>	<u>1,468,843</u>	<u>741,681</u>	<u>16,053,529</u>
31 December 2021					
<i>Financial assets:</i>					
Other financial assets measured at amortised cost	<u>10,302,332</u>	<u>7,142,239</u>	<u>1,944,036</u>	<u>1,385,285</u>	<u>10,471,560</u>
	Carrying Amount AED'000	Level 1 AED'000	Fair value Level 2 Level 3 AED'000 AED'000		Total AED'000
31 December 2022					
<i>Financial liabilities</i>					
Medium-term notes	<u>5,223,565</u>	<u>4,060,351</u>	<u>-</u>	<u>1,055,949</u>	<u>5,116,300</u>
31 December 2021					
<i>Financial liabilities</i>					
Medium-term notes	<u>7,315,119</u>	<u>5,259,890</u>	<u>-</u>	<u>2,070,100</u>	<u>7,329,990</u>

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 1% increase or decrease as at 31 December 2022 and 31 December 2021:

	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 2022				
Other financial assets measured at fair value	<u>26,523</u>	<u>(26,523)</u>	<u>77,775</u>	<u>(77,775)</u>
Derivatives	<u>9,642</u>	<u>(9,642)</u>	<u>395</u>	<u>(395)</u>
31 December 2021				
Other financial assets measured at fair value	<u>22,734</u>	<u>(22,734)</u>	<u>141,677</u>	<u>(141,677)</u>
Derivatives	<u>6</u>	<u>(6)</u>	<u>585</u>	<u>(585)</u>

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

44 Foreign restricted assets

Net assets equivalent to AED 549 million as at 31 December 2022 (31 December 2021: AED 218 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 Taxation

Tax expense

Tax expense for the year ended 31 December 2021, excludes an amount of AED 59 million which has been classified within general and administrative, this is immaterial to the consolidated financial statements of the Group and has not been adjusted.

Implementation of UAE Corporation Tax Law and application of IAS 12 Income Taxes

On 9 December 2022, the UAE Ministry of Finance released Federal Decree-Law No. 47 of 2022 on the Taxation of Corporations and Businesses (Corporate Tax Law or the Law) to enact a Federal corporate tax regime in the UAE.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2022 (continued)

45 Taxation (continued)

Implementation of UAE Corporation Tax Law and application of IAS 12 Income Taxes (continued)

The Law was published in the official gazette on 10 October 2022 and became effective on 25 October 2022. The Corporate Tax law will apply to taxable persons for financial years beginning on or after 1 June 2023. Generally, UAE businesses will be subject to a 9% corporate tax rate, while a rate of 0% will apply to taxable income not exceeding AED 375,000. However, there are a number of significant decisions that are yet to be finalised by way of a Cabinet Decision, that are critical for entities to determine their tax status and the amount of tax due. Therefore, pending such important decisions by the Cabinet, the Group has determined that the Law is not applicable to the financial year ended 31 December 2022, and so not enacted or substantively enacted from the perspective of IAS 12 – Income Taxes. The Group shall continue to monitor the timing of the issuance of these critical Cabinet Decisions to determine its tax status and the applicability of IAS 12 – Income Taxes. The Group is currently in the process of assessing the possible impact on its financial statements, both from current and deferred tax perspective, in preparation for full compliance with the new Corporate tax law noting that the first tax period for the Group is starting on 1 January 2024.

46 Additional Tier 1 capital securities

In July 2022, the Bank issued US\$ 300 million (AED 1,101.9 million) regulatory Additional Tier 1 (AT1) capital securities. These securities are perpetual, conditional, subordinated and unsecured and are classified as equity. These securities are issued at a coupon rate of 8.5% p.a. The Bank can elect not to pay a coupon at its own discretion and has an option to call back the securities in July 2027 subject to Central Bank approval.

47 Subordinated debt

In November 2022, the Bank issued US\$ 500 million of subordinated Tier 2 notes. The notes, which were issued at a re-offer price and yield of 99.702 and 7.95 per cent, respectively, and with a coupon of 7.875%, are callable after 5.25 years and have a final maturity of 10.25 years. They will rank pari passu among themselves, rank subordinate and junior to all senior obligations and rank in priority only to all junior obligations, subject to solvency conditions.

48 Subsequent events

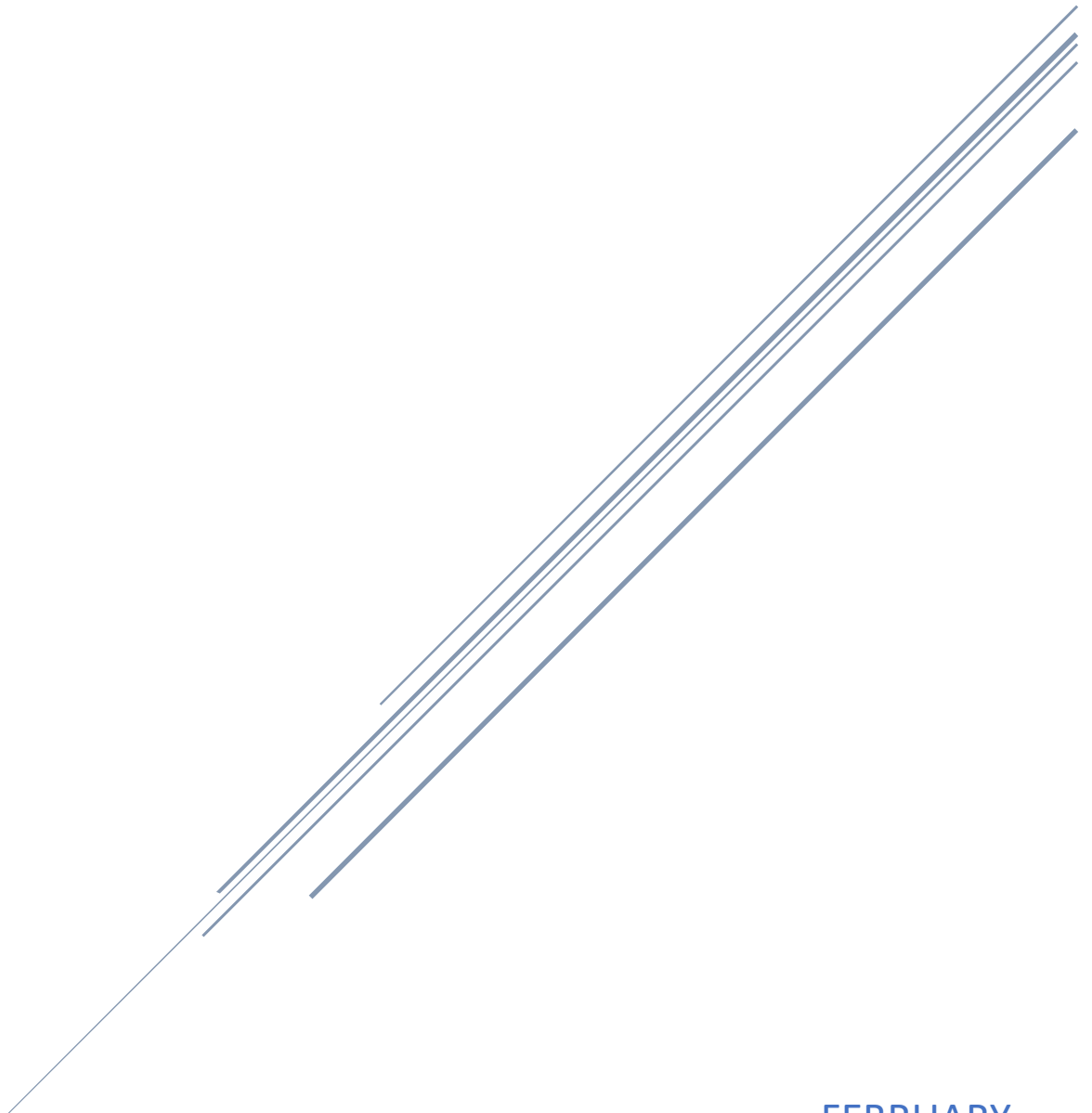
There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2022.

49 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2022 were approved by the Board of Directors and authorised for issue on 30 January 2023.

SUSTAINABILITY REPORT 2022

MASHREQ



FEBRUARY
2023

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1. About this Report

Mashreq is proud to present its 2022 Sustainability report, which was created in accordance with the ESG Reporting Guide provided by the Dubai Financial Market (DFM) and meets the guidelines of the Sustainable Stock Exchange (SSE) initiative and the World Federation of Exchanges (WFE). With transparency in reporting and disclosure of our key ESG metrics, we have highlighted our progress in these criteria to inform our investors, partners, customers, and readers about our sustainability journey.

Additionally, this report adheres to the GRI 2021 Standards, UN Global Compact (UNGC) principles, and Sustainable Development Goals (SDGs).

Throughout the contents of this sustainability report, we have highlighted our compliance, partnerships, and ambitions, which guide us to conduct our operations and processes with the purpose of creating an inclusive and sustainable economy for our stakeholders. Refer our annual report for further disclosures on Economic performance, Governance, Risk etc.

2. Scope of this Report

The Scope of this report is as follows.

Reporting year	The report covers our environmental, social and governance (ESG) performance for the calendar year 2022 (Jan – Dec 2022)
Reporting boundary	It covers our operations in the UAE only, unless otherwise indicated. HQ address: Umniyati Street (off Al Asayel Street) Burj Khalifa Community - Dubai - United Arab Emirates
Monetary Values	All monetary values mentioned are in Arab Emirates Dirhams (AED)
External Assurance	Selected disclosures in the report have been externally assured by 3 rd party (refer annex)
Contact Point	For any enquiries about this report, please contact: Mr. Thomas Jacob – Head of Strategy Sustainability@mashreq.com

We share information about our sustainability policies and performance through a variety of channels, including our Annual Report, several other reports and presentations, regulatory filings, press releases, and direct engagements with stakeholders. We have a dedicated Sustainability page on our website to make it easier to obtain the material we publish on these themes.

This annual Sustainability Report is intended to summarize and highlight our efforts on ESG topics relevant to our business and stakeholders, as well as guide readers to where they may get more comprehensive information on specific topics of interest. Unless otherwise specified, all data in this report pertains to the reporting year (as of December 31, 2022).

Errors, if any, discovered following publication of the report will be corrected and displayed on our website. In consideration to the environment, our reports are published as downloadable PDF files on our website.

3. Company at a glance

3.1 Introduction

Mashreq Bank PSC was founded by the Al Ghurair Group in 1967. We are United Arab Emirates' oldest privately-owned bank and are listed on the Dubai Financial Market. Over the years, we have secured our position as one of the leading financial institutions in the UAE with a robust presence in major financial markets spanning 13 countries across Asia, Africa, Europe, and North America. Our wide-ranging services include Corporate and Investment Banking, International Banking, Retail Banking, and Treasury and Capital Markets. In 2022, our combined banking services served around a million customers.

We are reputed for consistently providing our customers with value-added services and groundbreaking solutions. This approach to consistency, innovation, and prudence has won us recognition from various industry bodies. In 2022, we received several awards, including the 'World's Best Islamic Digital Banks 2022 for the UAE' from Global Finance, and the 'Best Retail Bank in the UAE' from World Finance.

Heritage	▪ Established in 1967 by the Al-Ghurair family ▪ 55 years of experience in the UAE banking and financial services market
Publicly listed	▪ Oldest local bank based out of the UAE ▪ Combines the entrepreneurial spirit of Dubai with enduring trade banking relationships across the region ▪ Listed on the DFM on the creation of the local stock exchange (2000)
Strong regional & international presence	▪ Prominent local bank with a presence in most GCC countries and a leading international network of branches/representative offices in MENA, Asia, Europe and USA ▪ Well positioned to finance regional trade flows
Diversified business	▪ Universal bank offering a comprehensive suite of products and services to individuals and corporates across all lines of business ▪ Diversified revenue stream with "fee and other income" contributing approximately 40% of total income
Experienced management team	▪ Long serving senior executives with international management expertise backed by a reputable board of directors
Strong shareholder base	▪ Mashreq has been the flagship business for the key shareholders (Al Ghurair family) since its inception in 1967 ▪ Supportive ownership structure backed by strong institutional shareholders

Figure 1: Mashreq at a glance

3.2 Stable and supportive ownership structure

3.2.1 Mashreq's Leadership

H.E. Abdul Aziz Abdulla Al-Ghurair - Chairman

His Excellency, Abdul Aziz Al Ghurair, is the Chairman of the Board of Directors of Mashreq. Previously, His Excellency was the CEO of Mashreq for nearly 30 years and under his leadership, Mashreq has grown from a small local bank to a leading customer centric financial institution in the region known for its innovative products and services. Furthermore, His Excellency is also a member of the Board of Directors of Abdullah Al Ghurair Group of Companies, one of the biggest and most successful business groups in the United Arab Emirates and the Middle East, with operations spanning more than 20 countries and business roots stretching back half a century.

3.2.2 Key Shareholders

Mashreq has a stable ownership structure, backed by strong institutional shareholders for whom it has been a flagship business since its inception. Mashreq's shareholders as of 31 December 2022 are:

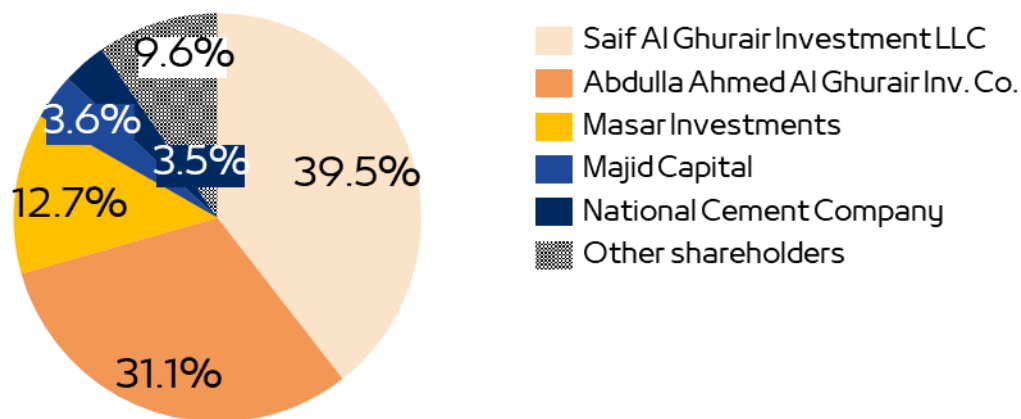


Figure 2: Key Shareholders

3.3 Our Product Suite

Our product suite caters to the evolving needs of our ever-expanding national and expatriate customer base. Our services comply with the International Financial Reporting Standards, and with the Shariah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions



Figure 3: Product Suite

3.4 Vision, Mission, and Values

Vision: Our Vision is to be the region's most progressive bank, enabling innovative possibilities for our clients, colleagues, and communities

Mission: Our Mission helps us foster long - lasting relations with our stakeholders by

- Being the best place to work
- Delivering superior client experience
- Pursuing opportunities that grow value for shareholders
- Leading with innovation
- Actively contributing to the community through responsible banking

Values: Our Values reflect Mashreq's true spirit

- **S**ocially responsible
- **P**assionate about clients
- **I**nnovative
- **R**espect for colleagues
- **I**ntegrity
- **T**ransparent

3.5 Mashreq’s Regional & International Presence

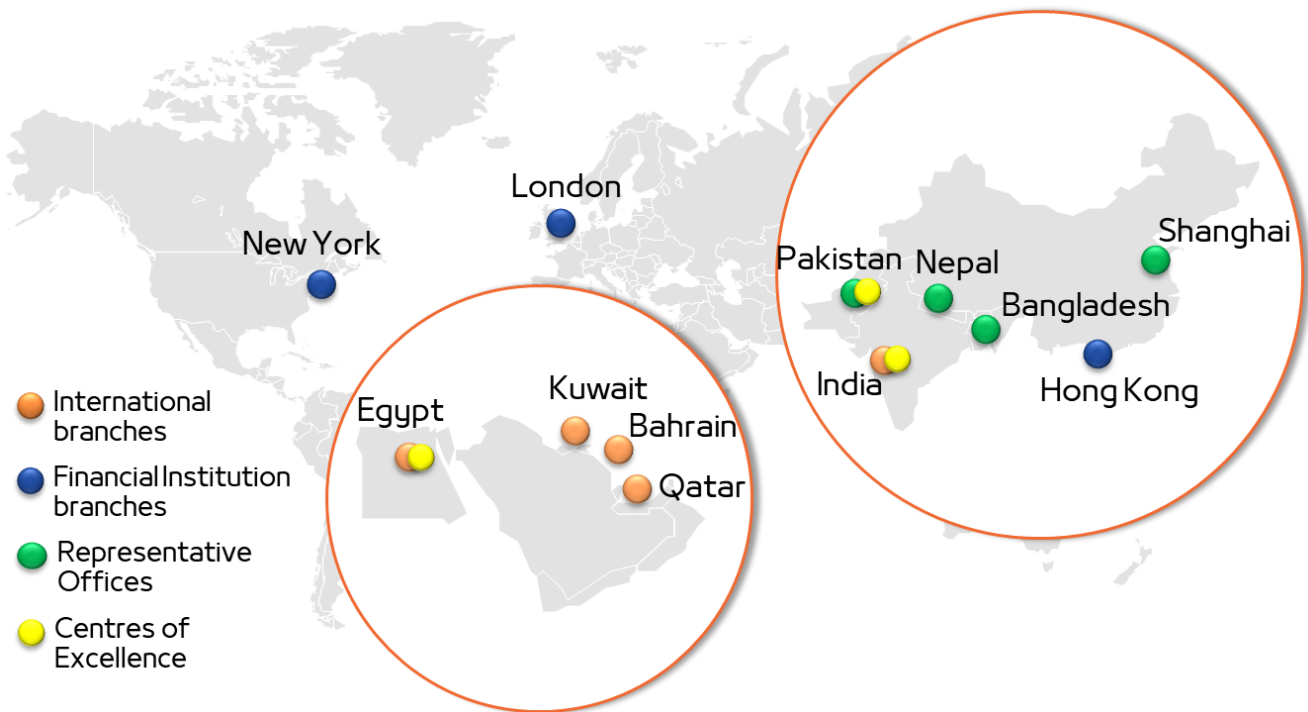


Figure 4: Mashreq Regional & International Presence

3.6 Strong track record in international expansion

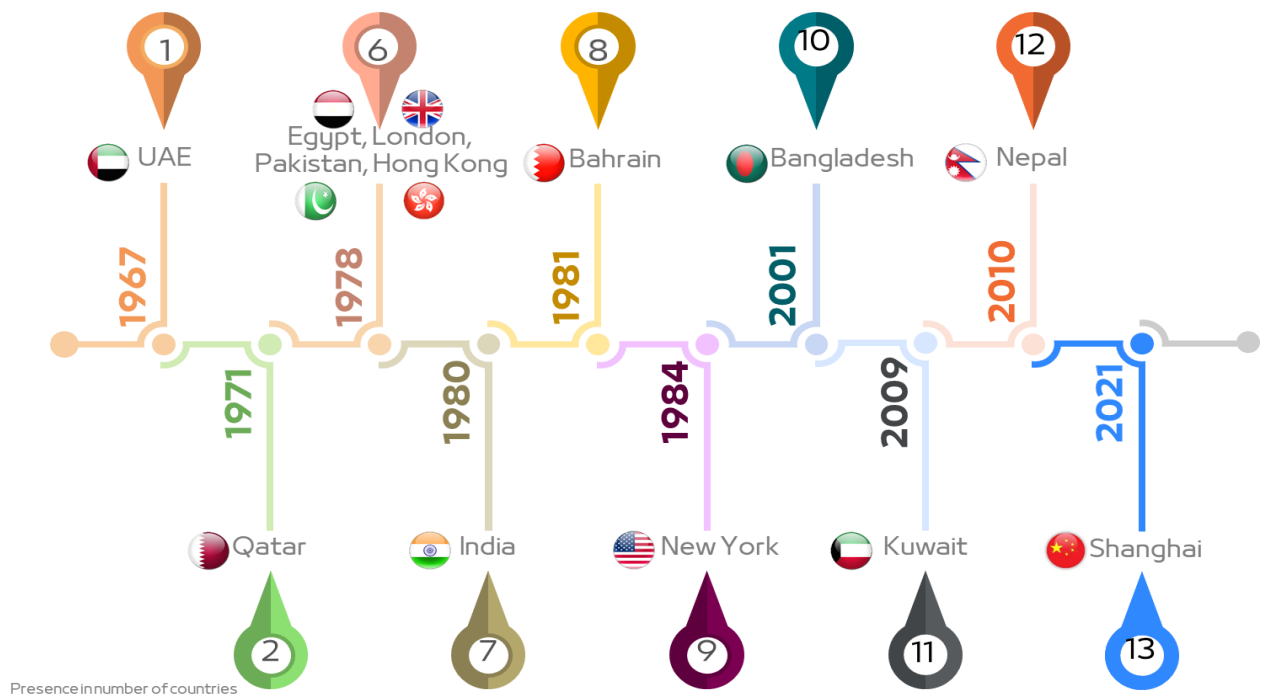


Figure 5: International Expansion

3.7 Our Financial Performance

Table 1: FY 2022 Financial Performance

Assets	AED 198,811 Mn
Revenues	AED 7,496 Mn
Net Profit	AED 3,706 Mn
Earnings Per Share	AED 18.48
Capital Adequacy Ratio	16.02%
Market Capital (Dec '22)	AED 19.6 Bn

3.8 Our Top-Tier Ratings

Table 2: Credit Ratings

CREDIT RATING AGENCY	LONG TERM	SHORT TERM	OUTLOOK
Fitch	A	F1	Stable
Standard & Poor's	A-	A-2	Stable
Moody's	Baa1	P-2	Stable
Capital Intelligence	A	A1	Stable

Table 3: ESG Ratings

ESG RATING AGENCY	Rating/ Score	Comment
Sustainalytics	30.3 (High)	Improved from 46.9 (Severe) in the year 2022
Moody's ESG Credit Impact Score	CIS-2 (Neutral-to-Low)	Overall influence of ESG attributes on the credit rating is non-material

3.9 Awards & Accolades

Mashreq has been the proud recipient of many awards and commendations. It is an honor to be appreciated for the work we do in serving the customer and society.

- **MEA Finance Awards**
 - Best Private Bank in the Middle East
 - Special achievement in Digital innovation - Retail Liabilities business
- **MEED - MENA Banking Awards 2022**
 - MENA Trailblazers - MENA Private Bank of the Year
- **Middle East & Africa Retail Banking Innovation Awards 2022**

- Outstanding Digital Acceleration in response to COVID-19
- The Best Pure Play digital initiative
- The outstanding client onboarding & account opening
- The outstanding personalized 1:1 marketing award
- **PWM's Wealth Tech Awards (FT Group)**
 - Best private bank for client acquisition
- **Middle East Wealthtech Awards 2022**
 - Top Bank in Wealth Management of Middle East 2022
- **Global Private Banking Innovation Awards - Best Family Office Offering (Highly Acclaimed)**
 - Best Private Bank – UAE
 - Best Private Bank for Funds
- **Global Private Banking Awards 2022 by PWM**
 - Best Private Bank in the United Arab Emirates
- **Private Banker International Global Wealth Awards 2022 (by FT)**
 - Outstanding private Bank - Middle East
- **MEA finance Wealth & Investments Summit**
 - Best Private Bank in the UAE
 - Best Digital Innovation and Services in Wealth Management
- **Leaders in Fintech Awards 2022 -presented by Entrepreneur Middle East**
 - SME Digital Market Place of the Year Award
- **MEA Retail Banking Innovation Awards 2022**
 - Outstanding Client On-boarding & Account Opening
 - Outstanding Personalized 1:1 Marketing Initiative
- **Finnovex Middle East Awards 2022**
 - Excellence in Mobile Banking
- **Global Finance**
 - World's Best Islamic Digital Banks 2022 for the UAE
- **Global Finance: World's Best Consumer Digital Banks in the Middle East (Country Awards UAE)**
 - Best Online Deposit, Card and Investment Product Offerings
 - Best Mobile Banking App
- **Global Finance: World's Best Corporate Digital Bank Awards in the Middle East (Country Awards UAE)**
 - Best Corporate/Institutional Digital Bank
 - Best Online Cash Management Services
 - Best Trade Finance Services
 - Best Integrated Corporate Banking Site
 - Most Innovative Digital Bank
- **Global Finance: Regional Sub-Category Winners (Middle East) - Corporate**
 - Best Trade Finance Services
 - Most Innovative Digital Bank
- **Private Banker International Global Wealth Awards**
 - Outstanding Private Bank-Middle East
- **Great Place to Work – MGN India**
- **Euromoney Cash Management Survey**
 - Market Leader – UAE, Qatar and Bahrain
 - FI – Market Leader – Global – AED Currency
 - FI – Best Service – Africa

- **International Finance Awards**
 - Best Corporate Bank – Bahrain 2022
- **Global Business Magazine**
 - Best Corporate Bank Qatar 2022
- **The Global Economics awards 2022**
 - Best Use of Technology in Banking - UAE 2022
 - Most Innovative Retail Bank - UAE 2022
- **Seamless 2022**
 - Best Digital Banking Experience of the Year' for ETP-Onboarding Journey
- **Decarbonization and Climate Action (DACA) awards**
 - Torch bearer of Sustainable & Climate Friendly Investment
 - Leader in Environmental, Social & Governance (ESG)
- **The Banker Magazines "Deals of the Year Awards 2022"**
 - Deal of the Year-APAC- FIG (Axis Bank's Inaugural USD600m 144A/Reg S Perpetual-NC5 AT1 Issuance)
 - Deal of The Year-Middle East - BONDS: SSA (USD 4 Billion Triple Tranche Bond for Government of UAE)
- **World Finance**
 - Best Retail Bank in the UAE
- **MEA Finance Banking Technology Awards 2022**
 - Best Innovation in User Experience award by MEA Finance
- **Global Business Outlook**
 - Most Innovative Islamic Banking Window – UAE 2022
- **Euromoney Awards for Excellence 2022**
 - Regional awards: Middle East's Best Digital Bank
 - Country awards: Best Bank for Digital Solutions in the UAE
- **Customer Experience Live Middle East Awards 2022:**
 - Best Customer Care in the Middle East
 - Best Contact Center Middle East
- **Global Finance – World's Best Financial Innovation Labs**
- **Middle East and Africa Innovation Award 2022 from The Digital Banker**
 - Outstanding Achievement in AML / CFT in the Middle East' for CBIA – Correspondent Banking Interactive Analytics
- **2022 Euromoney Trade Finance Survey**
 - Market Leader in the UAE
 - Market Leader in Middle East
 - Best Service – Africa, Pakistan and Qatar
- **International Business Magazine**
 - Best Digital Bank in the Middle East 2022
 - Banking CEO of the Year in the Middle East 2022 - Ahmed Abdelaal
- **LinkedIn's 2022 Top Companies list in the UAE – Mashreq**
- **The Payment Card Industry's Data Security Standard (PCI-DSS) for 3rd year**
 - PCI-DSS compliance certification for 2022 – Mashreq UAE including Cloud and Digital Stack along with its Center of Excellence in India (MGN)
- **ISO 41001:2018 certification from ServeU**

4. Our Sustainability Approach

Since our inception in 1967, Mashreq has adopted the principles of Social Responsibility, Integrity, and Transparency into every aspect of its business thus contributing towards building a sustainable planet.

As a bank founded on the principles of Social Responsibility, integrity and transparency, our key priority is to adopt strong Environmental, Social and Governance Practices across the organisation. We have a strong history of Environmental, Social and Governance commitment delivered through targeted and well-crafted policies, processes, and operations.

Sustainability for Mashreq extends far beyond economic, legal, or regulatory considerations. It is a means by which we produce sustainable value for our clients, stakeholders, and society at large. We are committed to addressing the impact of our operations on society and the environment, and we strive to uphold sustainable business principles, encourage them, and co-create sustainable business value for all our stakeholders.

4.1 Our Sustainability Vision

Mashreq will aspire for Sustainability leadership in the regional banking sector. It's our commitment to our clients, our stakeholders and to society.

4.2 Our Sustainability Philosophy

Our Sustainability philosophy is that by strengthening the environmental and social aspects of products and services, we exemplify the ideals of sustainable finance. We pledge to establish a governance framework to direct all our efforts to lead the regional banking sector in ESG & Sustainability initiatives.

We are dedicated to incorporating ethical, social, and environmental principles into our operations, which is important in enhancing the standard of living in the communities we serve globally and increasing long-term stakeholder value.

4.2.1 Our principles

We shall:

- Incorporate sustainability considerations into business decisions and key work processes to create value, mitigate future risks, and maximize opportunities.
- Adhere to the highest governance and transparency standards.
- Prioritize and manage financial resources through responsible banking services and products to support our customers in constructing a more sustainable and environmentally friendly future.
- Provide employees and business associates with clean, safe, healthy, and equitable working conditions.
- Strive to be preferred neighbours in the communities where we operate, contributing to their broad-based and inclusive development.

4.2.2 Our Commitments

We will aspire for Sustainability Leadership in the regional banking sector and will:

- Establish a governance structure to oversee our sustainability commitments.

- Identify relevant and material sustainability issues and develop comprehensive sustainability strategies with goals, targets, mitigation and adaptation action plans to address them under the supervision of our Board.
- Report in accordance with global reporting frameworks.

4.3 Our Sustainability Strategy

Our corporate strategy is centered on sustainability. We put plans in place aimed at lowering our environmental impacts in our value chain. Diversity and the well-being of our workers come first in all we do.

We believe that Sustainability is a driver of value creation and new revenue streams. Our ambition as first movers is to create new competitive opportunities while creating tangible environmental and social benefits. We have built on four strategic focus areas in our Sustainability strategy.

Mashreq's ESG approach is anchored by our Board of Directors and Senior Management Team. Business leaders oversee owning and driving actions on identified materiality issues, with our Sustainability department supporting them to achieve alignment.

Mashreq's strategic priorities are to make banking simple, both by digitization and through the creation of policies, processes, and products that address customer needs, thereby creating shared value between Mashreq and its stakeholders.

Mashreq strategic priorities align with Sustainability values as below.



Figure 6: Key Pillars of Strategy

Our governance process identifies pertinent sustainability-related issues and produces clear strategies with goals, targets, and action plans for mitigation and adaptation. Mashreq's commitment to strategic sustainable development is expressed in our 4E Sustainability Framework shown below.

4.3.1 Mashreq 4E Sustainability Framework



Figure 7: 4E Framework

4.3.2 Mashreq’s 4E Framework: Enablers

We identified enabling factors for our successful implementation of sustainability strategy through 4E framework.



Figure 8: 4E Framework Enablers

4.4 Sustainability highlights for the year 2022

- Sustainable Finance (financed & facilitated) USD 15.5 Billion
- Signatory of UNGC
- Official Supporter of COP 27
- Certification for ISO 41001:2018 facilities management systems across Mashreq premises
- MENA Net Zero Collaborator agreement with WORLD GREEN BUILDING COUNCIL - MENA REGIONAL NETWORK
- LEED Gold Certification for Mashreq Global Headquarters
- Mashreq paperless campaign as part of Digital First Bank & ecofriendly initiative
- Mashreq “Hire for CSR – Covid Widows” program to employ individuals, particularly women, that are impacted by catastrophes such as Covid-19, natural calamities, pandemics, and epidemics.
- The ‘Returning Mothers’ program is yet another purpose-driven initiative that assists in the smooth re-induction of mothers back into corporate life.
- Debt counselling services for financially distressed or overleveraged customers
- First Bank in the Middle East to join the United For Wildlife (“UfW”) Financial Taskforce
- Mashreq has joined the 1 Billion Meals initiative, the largest of its kind in the region, which aims to provide food support to the underprivileged and undernourished in less fortunate communities throughout 50 countries across the world.
- Mashreq has received the prestigious Employer Choice Award from Abu Dhabi Global Market
- Mashreq named by LinkedIn as one of the Top 10 places to work for 2022.
- Decarbonization and Climate Action (DACA) awards - Torch bearer of Sustainable & Climate Friendly Investments
- Decarbonization and Climate Action (DACA) awards - Leader in Environmental, Social & Governance (ESG)
- Mashreq signed the CEO Champions Commitments aimed at bridging the gender gap in the 2022 edition of the Women's Forum for the Economy & Society in Dubai.
- Successful implementation of Smart Aisle Containment in our datacenter as part of Green IT and Energy Saving initiative with potential savings of 30% of the cooling units energy bill.
- Zero cases of data security breaches
- 83,845 hours of training provided to employees across levels.
- Mashreq contributed 1 million AED and facilitated an additional 0.14 Million AED towards CSR activities.

5. Stakeholders Engagement

To make a powerful impact with significant initiatives towards addressing challenging problems, it is critical for us to understand all our stakeholders and their expectations. Our goal is to produce results that benefit all major internal and external stakeholders.

We regularly interact, communicate, and consult with our stakeholders to promote an exchange of ideas and viewpoints that support the development of mutually beneficial solutions. That's not all. We actively participate in CSR initiatives, community development projects, and feasible environmental initiatives using a variety of channels to encourage effective communication and greater engagement with stakeholders.

In an effort to do business in a transparent and ethical manner, we have created an effective and inclusive stakeholder engagement process that allows us to forge a long-lasting, mutually beneficial partnership. The table below lists the stakeholders we identified, along with their modes of engagement and frequency:

Table 4: Stakeholder Engagement

STAKEHOLDER GROUP	ENGAGEMENT MODE
Employees: Our people are at the heart of Mashreq and are vital to our success. We work to understand our employees' evolving needs and perspectives	We engage with our employees through surveys, such as our Employee Engagement Survey and Exit Surveys; town hall and small group meetings; focus groups; blogs, articles, corporate communication emails, newsletters; online feedback tools; and other channels. We conduct engagement surveys on a regular basis to identify areas of strength and opportunities for improvement to promote ongoing employee satisfaction and retention. Our CEO & Senior management led Town Halls cover topics such as business strategy and outlook, emerging industry trends, and our progress on key bank wide initiatives, and allow employees to ask questions of our senior management.
Investors & Shareholders: We engage with shareholders on critical issues such as corporate governance, shareholder rights, Executives compensation, and sustainability.	We interact with shareholders through our Annual Report and Proxy Statement, Regulatory filings, news releases, and the Company's website. We also communicate with shareholders via investor meetings and conferences, annual shareholder meetings, and other channels. We have a structured shareholder engagement programme that addresses issues such as corporate governance, shareholder rights, Executives compensation, and sustainability. Management delivers information and gives updates on these matters during these meetings, answers questions, and solicits shareholder perspectives and views. We also communicate with shareholders outside of established channels. These engagements offer us with valuable input, which we take into account as we build the Company's procedures, policies, and strategic direction.
Customers: We assist individual and retail customers, as well as corporate and institutional clients, in meeting their financial demands. We request and respond to customer input regarding our goods, services, and organisation as a whole on a frequent basis, and we strive to establish long-term partnerships based on trust and mutual respect.	We interact with our customers on a regular basis at our branches, as well as through our website, customer care center and social media channels. We also engage with our clients through surveys, one-on-one meetings, roundtables, and conferences etc.
Suppliers & Vendors	We communicate frequently with our main suppliers via a variety of channels, including regular business reviews, ad hoc meetings, phone, and email. We are

We communicate with our major suppliers on topics such as our ability to operate efficiently and effectively, deliver products and services that meet the demands of our clients and customers, manage risk and controls, and promote our diversity, equality, and inclusion agenda.	committed to holding our suppliers to high business conduct and integrity standards, and we collaborate to have a positive impact in the communities where we do business.
Communities We are committed to making sure that various viewpoints, particularly those of the communities we serve, influence the Company's business choices. We believe in development and lasting betterment to communities around our operations	We are engaging with external stakeholders in a variety of forums. Our corporate responsibility team identifies and engages with relevant community members, NGO's etc. for local engagement and two-way dialogue with stakeholders.
Government & Regulators We endeavour to have an open and continuing dialogue with our supervisory regulators and other policymakers.	We work with policymakers on a wide range of issues including banking, financial services, cybersecurity, workforce development, taxation, and inclusive economic growth. We interact with regulators as required to do business and offer feedback on proposed changes to pertinent rules that might have an impact on our business.

6. Materiality Assessment

In the sustainability world, "Materiality Assessment" forms the backbone of reporting. The greatest challenge for any organization is to understand what is important to whom and marginalize what is insignificant. Materiality essentially reflects the issues that have significant economic, environmental, and social impacts on the organization, or that substantively influence the assessments and decisions of its stakeholders.

Materiality enables the integration of sustainability issues into the core business strategy and hence strengthens an organization's ability to address risks & opportunities emerging from these issues. Our materiality assessment process flow is as below.

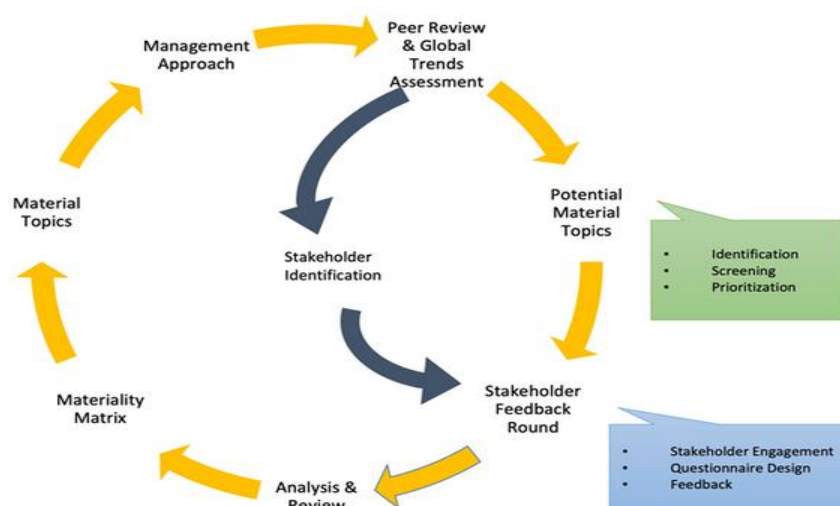


Figure 9: Materiality Assessment Process Flow

6.1 Materiality Assessment Approach

A Materiality Assessment for our internal and external stakeholders was carried out in the following way:

- Potential Material Topics (PMTs) were identified based on the assessment of topics relevant for the Banking and Financial Services sector & global sustainability trends.
- The PMTs were finalized post the management review.
- Key internal and external stakeholders were identified to engage with for the stakeholder feedback round.
- An online survey questionnaire was designed to collect feedback from all stakeholders.
- A total of 212 survey responses were consolidated and an additional consultation with senior management was held to finalize 11 topics most material to us

6.2 Stakeholders feedback on Material issues and Key Risks

Through the engagement survey, stakeholders shared their perceptions of the top risks for the banking and financial services sector. Across groups, the following were highlighted as key risks:

- Cybercrime & Data Security
- Economic Instability & Credit Risk
- Internal Governance Mechanisms
- People Risks
- Disruptive Technologies
- Shifting Regulations & Compliance
- Business Ethics
- Customer Experience & Retention

6.3 Material Issues

The primary qualitative response, received through the stakeholder feedback session, was converted into a secondary quantitative score for each stakeholder category. Then a weighted average method was employed to calculate the final average score for each potential material topic.

These scores were then converted into percentiles and categorized into different percentile groups. Through this, and following a discussion with Mashreq's senior management, 11 topics most material to Mashreq's business were identified and plotted on an X-Y cartesian plane to develop the Materiality Matrix.

Following the stakeholder engagement and subsequent mapping of material topics, comprehensive one-on-one interviews were conducted with the senior management, including Sustainability Working Group. The engagement allowed for the collection of qualitative data by understanding the strategic perspectives of the Bank's management with respect to the company's current approach to ESG and future vision.

Through this, the assessment coupled with inputs from the Bank's senior management, the final list of material topics was refined and mapped as follows:

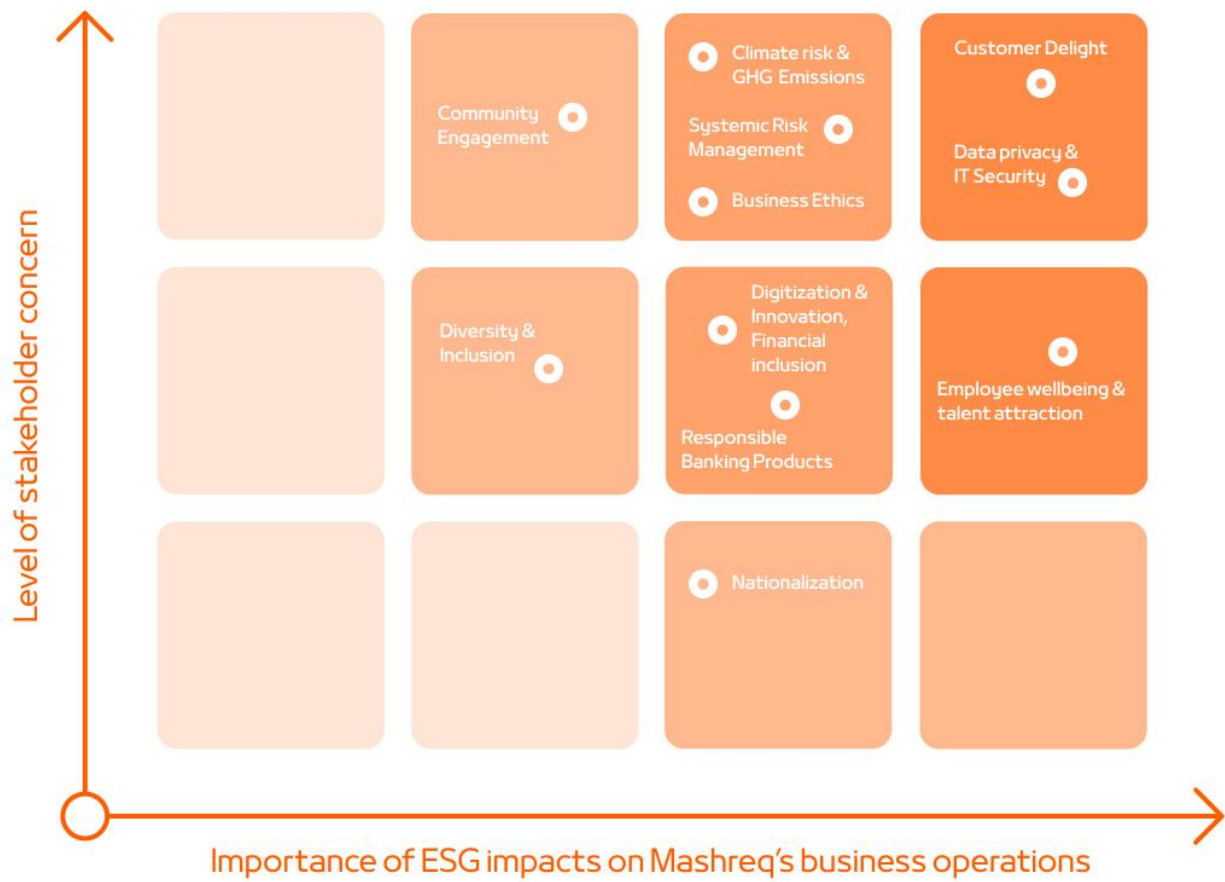


Figure 10: Materiality Issues

6.3.1 Material Issues mapped against Mashreq 4E Sustainability Framework

Enabling a Low Carbon Transition & Environmental Stewardship

- Climate Risk & GHG Emissions

Empowering Employees & Communities

- Diversity & Inclusion
- Employee Wellbeing & Talent Attraction
- Nationalization
- Community Engagement

Embedding Responsible Business Practices throughout our Organization

- Systemic Risk Management
- Business Ethics
- Data Privacy & IT Security

Exceeding Customer Expectations

- Responsible Banking Products
- Customer Delight
- Digitization & Innovation, Financial Inclusion

Figure 11: Materiality Issues Mapped with 4E Framework

7. Corporate Governance, Compliance and Risk Management

Corporate governance, as the backbone of our business, is one of the main pillars of our Sustainability approach. Our governance structure encompasses our core values and is critical in building our culture, ensuring regulatory compliance, nurturing relationships with internal and external stakeholders, and promoting transparency and disclosures. As a result, we are constantly striving to meet the highest ethical and effective decision-making standards while exceeding client expectations and creating long-term value to our shareholders.

Our effective corporate governance procedures assist us in preserving the stakeholders' interests, including those of consumers, clients, workers, shareholders, and communities. Mashreq believes that continued success rests on adherence to its Business Principles, which focus on how we strengthen, safeguard, and grow our company over time. These principles apply consistently across lines of business and geographies where we operate.

7.1 Governing Bodies & Committees

7.1.1 The Board of Directors

Our corporate governance infrastructure is strengthened by having established roles and giving clear responsibilities to decision-makers at different levels, starting with the Board of Directors. The Board of Directors, which is elected by the shareholders, is responsible for the overall corporate governance of the bank. The responsibility of the Board includes setting the company's strategic ambitions, enabling the leadership to carry out these aims, supervising business management, reporting to shareholders on their stewardship, and protecting the rights and interests of the minority shareholders. The Board's

performance is subject to laws, regulations, and shareholder decisions made in general assembly meetings.

Governance structure of the organization, including committees of the highest governance body is as below:

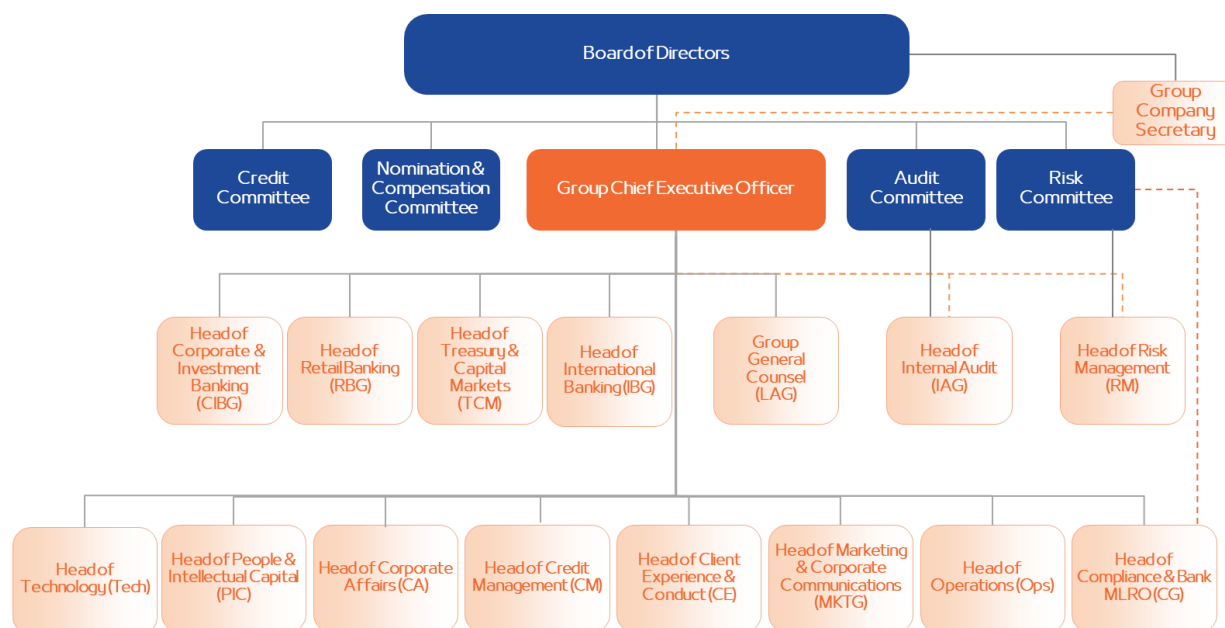


Figure 12: Organisational Structure

To maintain board Independence, the CEO is prohibited from acting as the Board Chair. Of the 7 directors, 2 (29%) are independent. Directors are elected by our shareholders for 3-year terms based on an assessment of their qualifications, experience, and management capabilities. On joining, all elected directors are mandatorily required to disclose their dealings in the bank's shares as well as their interests. As a standard, the Board meets once every quarter. In FY2022, it met 6 times.

Board members are usually paid a fixed annual fee. The total remunerations of the Board members, which are proposed for 2022, and will be presented in the annual general assembly meeting for approval is:

- a) Chairman - AED 550,000.00
- b) Board Members each - AED 450,000.00.

In FY2022, the ratio of CEO total compensation to median FTE total compensation was 15.9:1.

To enhance transparency in both financial and non-financial disclosures communicated to our stakeholders, this metric is reported in regulatory filings.

7.1.2 Board Committees

There are four Board committees established to assist the Board in executing its various functions. The delegates of these committees and their roles are described in their respective charters, which are reviewed and updated regularly.

Table 5: Board Committees

COMMITTEE	FUNCTIONS
Audit Committee	The Audit Committee met 4 times in the year. It's main functions include reviewing the financial reporting process as well as oversight of the activities and effectiveness of the Bank's internal and external auditors.
Credit Committee	The Credit Committee met 2 times in the year. It is primarily responsible for exercising oversight of the credit approvals of the Bank and making appropriate credit decisions and/or recommendations to the Board based on the Bank's credit risk appetite.
Risk Committee	The Risk Committee's met 4 times in the year. It's main function is to exercise oversight of key risk and compliance and making appropriate recommendations to the Board on the compliance status of the group and on the risk appetite framework as recommended by the Enterprise Risk Committee.
Nomination and Compensation Committee	The Nomination and Compensation Committee met 2 times in the year. It's main functions include ensuring that there is an adequate composition of the Board, Senior Management and staff for the ongoing functioning of the Bank operations; to have plans in place for orderly succession to both the Board and Senior Management positions; to evaluate the performance on the Board; and also to satisfy itself that the remuneration framework is in line with the risk appetite, business strategy, culture and values, and long-term interests of the Bank as well as in compliance with the laws and regulations issued by the UAE Central Bank.

7.1.3 Management Committees

To manage the bank's daily functions across its departments and processes, we have 6 management sub-committees to support the Executive Committee

Table 6: Management Committees

SUB-COMMITTEE	FUNCTIONS
Asset and Liability Committee	Meets every month to monitor and direct Mashreq's assets and liabilities to manage liquidity, ensure compliance with laws and regulations, and mitigate interest-rate risks.
Compliance Risk Management Committee	Meets every month (maximum of 10 in a year) and assists the senior management by providing insight into issues such as ensuring regulatory compliance, anti-money laundering, anti-bribery and corruption, and terrorism finance issues.
Information Security Committee	Meets quarterly to review Mashreq's Information security infrastructure
Enterprise Risk Committee	Meets as and when required to address Mashreq's initiatives involving

	risk and creates and reviews risk management strategies in line with the bank's risk appetite.
Investment Committee	Meets quarterly to review the bank's performance against established benchmarks and to approve the bank's investment in securities.
Human Resource Committee	Meets as and when required to review HR practices related to learning and development, talent management, engagement, remuneration, Emiratization, succession planning, and performance management among others

In addition, we also have an Internal **Shari'ah Supervision Committee** - to achieve high standards of Shari'ah Compliance, we have engaged top scholars from the world of Islamic Finance who supervise every step of Islamic product development and its related contracts.

7.1.4 Sustainability Governance

At Mashreq, we believe that a holistic sustainability approach not only creates change, but also drives business value. We understand the need for policy research, creative innovation, and long-term insight in setting ambitious sustainability targets and delivering continual growth.

In this regard, we have established a Sustainability Working Group (SWG) and the group comprises of below team members from various functions:

Table 7: Sustainability Working Group

NAME	FOCUS AREA
Ashok Gopal	People Development and Employee Well-being
Ashvini Bakshi	Risk Management
Faisal Al Shimmari	Risk Management
Ganesan Ramani	Technology
Hensa Bhatia	Organization Development & Employee Well-being
Husam Abdel Al	Investment Banking
Maram Habash	Client Experience
Madhav Nair	International Banking
Nawal Bayari	Retail Banking
Sara Salmeen	International Banking
Shaima Alobeidli	Group Company Secretary
Shakil Haider	Corporate Banking

Shereen Rehiem	Operations
Suad Merchant	Marketing and Brand Strategy
Syed Aamer Asif	Investments
Thomas K Jacob	Strategy & Investor Relations
Tony John Crasta	Credit Management
Wayne Heaton	Asset & Property
Yekta Ozcan Bahadiroglu	Internal Audit

Key responsibilities include assessing current and potential ESG related risks and opportunities, reviewing the existing framework to manage such risks, prioritizing ESG initiatives for immediate implementation, setting targets, and monitoring performance against established KPIs. Through this, the working group will be accountable for developing and driving our corporate sustainability strategy. The working group will report to the senior management and will be required to give an annual update on the overall execution of the strategy and performance. Additionally, we are in the process of defining Key Result Areas for sustainability-related performance metrics of relevant employees in the organization.

7.2 Business Ethics, Policies, and Anti-Corruption

At Mashreq we pride ourselves in conducting business ethically and responsibly. We have strict procedures to forestall and detect corruption. We have explicit accounting guidelines and systems that ensure accurate bookkeeping. To reinforce these systems amongst our stakeholders, we have the following internal policies.

a) Code of Conduct - Based on our core values and universal virtues of fairness, respect, and responsibility, we have adopted a Code of Conduct. All employees are mandatorily required to uphold and adhere to these rules. The code is included in relevant contracts and its compliance is closely monitored. This is supported with regular communications from our senior management reminding employees of the guidelines set by the code and other anti-corruption policies.

b) Compliance Policies - To improve our compliance with government policies and to detect and deter corruption and fraud, we have set in place the following internal policies. All these policies can be found on our website:

- Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT) Policy Anti-Bribery & Anti-Corruption (ABC) Policy
- Cash Policy (for management of physical cash at the bank's locations) Know Your Customer (KYC) Policy
- Sanctions Policy
- Policy on Contact/Communication with Regulatory Authorities/Agencies

c) Insider Trading Policy - At Mashreq, we have a strict rule that forbids anyone who has inside information from trading in our securities. We do not allow insiders to share or allow access to any unpublished data

Responsibility	Roles and responsibilities regarding the protection of information are established across various levels of the workforce.
Transparency	Clear and accessible notices and policies describe how information should be collected, stored, and protected.
Security	Reasonable physical, administrative, and technical measures are set in place to safeguard personal information from misuse or unauthorized access.
Focus on processes	Processes are designed to ensure that data is collected and managed as per the rules defined in the privacy policies, and procedures are established to respond to any queries / concerns regarding the use of such data.
Access	As required by law, we have provided individuals with the ability to amend or delete their personal information. Also, in case of a data security breach, we immediately notify the affected individuals.
Choice	We provide individuals with appropriate choices to decide how their information is used and disclosed.
Transfer	We strictly follow the privacy policies and applicable laws while transferring personal information across countries or to third parties.
Reassessment and Monitoring	We constantly monitor privacy laws and regularly update our privacy principles and guidelines to comply with them.

related to Mashreq or its underwritings. We prohibit the sale of information by insiders who possess material non-public information about Mashreq, as well as the divulgence of material, non-public data about Mashreq.

d) Information Security Policy - As a financial institution, we collect private and sensitive data from our customers, and in doing this, we realize our responsibility towards safeguarding it and assure our customers of our commitment to protect their information. As a result, we have authorized the Information Security Policy, which guides our employees on how to receive, store, share, and dispose of data. We are pleased to share that during FY2022, there were zero cases regarding breaches of customer privacy or loss of customer data and our data privacy policy complies with GDPR rules. Our 'Privacy Principles' demonstrate the steps we take while managing information.

e) Whistle-blowing Policy - Mashreq maintains robust procedures that provide a network for whistleblowing while safeguarding and protecting the identity of the whistle-blower. This allows employees to make anonymous complaints and raise genuine concerns. We consider every complaint with due fairness while recognizing the seriousness and credibility of the issue and information. We have also established protocols in place that investigate any non-compliance or related grievances.

To raise a concern, employees can email - ethics.whistleblowing@mashreq.com or call +971-4-4246677.

f) Procurement Policy and Supplier Charter - Mashreq prioritizes the purchase of goods and services that deliver on sustainability whilst being cost-effective. To ensure that our suppliers comply with relevant laws and regulations, our supplier charter is sent to all the vendors as soon as they are registered with us. The charter covers all relevant topics pertaining to health and safety standards, diversity and inclusion, anti-discrimination, and environmental protection and conservation. In FY2022, 170 new vendors were

sent our supplier charter. We have also developed standards for the usage of environmentally sustainable products which will be included in all relevant contracts. In addition, we plan to initiate asking our suppliers to fill in a supplier information questionnaire, to gather data that helps us determine their environmental policies and holistic approach to environmental issues.

In contract it is mentioned Customer's procurement activities are governed by the principles of transparency, fairness, responsiveness, best value, and accountability. Adherence to these principles prohibit the Mashreq's staff to accept/offer and or make any direct or indirect efforts to offer any gift, gratuity, entertainment, kickback, or anything direct or indirect of monetary value which unduly affect the outcome of procurement activities between the parties to the procurement under Conduct of Business Clause. These actions, intentional or otherwise, may create an ethics violation and is subject to reporting. A dedicated team at Mashreq is available on the ethics hotline on number: +971-4-4246677 and email: fraudreport@mashreqbank.com to independently handle reported violations. There was no other separate communication with vendors pertaining to ABC policies.

No case was reported against third party related to ABC violations in 2022.

e) Consequence Management Policy - It is often observed that non-compliance with our policies, whether accidental or deliberate, leads to financial and/or reputational losses for the bank. We have therefore designed the Consequence Management Policy to ensure strategic, transparent, and swift responses in handling such cases of non-compliance which could result in regulatory/legal repercussions. The Fraud Prevention & Investigation team after conducting formal investigations reports such incidences to the Consequence Management Committee. The committee after reviewing the reports holds discussions with concerned stakeholders and decides Mashreq's response considering the intensity and spread of the credit/reputational loss.

7.3 Remuneration Practices

Our remuneration policy is based on the principles of competitiveness, equitability, and pay for performance. It is designed to support our strategic business objectives by promoting effective risk management, enhancing employee motivation, and encouraging better performance. We follow a 'Pay for Performance' approach that is backed by our incentive-based performance management systems. We also review our compensation packages annually across all countries of operation to ensure they are abreast with the current respective market pay practices.

Our judiciously structured Variable Pay Program ranges from product-specific incentive schemes for our sales force to long-term incentive plans for our senior management. There is also a bonus-based system in place for our non-incentivized employees. Our reward framework avoids excessive risk through claw-back mechanisms - rewarding employees who embrace Mashreq values and encouraging ethical behaviour while ensuring that the interests of our customers, employees, and shareholders are aligned.

7.4 Risk Management and Compliance

The trademark of an efficient risk management system lies in its ability to adapt to any change effortlessly. At Mashreq we often revisit and upgrade our risk strategy and use new technologies that enables us to meet different challenges and evolve our business. brings value to stakeholders and the organization as it promotes consistency and enhances risk-reward optimization. Risk management is therefore key to building organizational resilience to withstand both financial as well as non-financial risks.

At Mashreq, we believe that corporate governance is not just an exercise for regulatory compliance, but also supports effective risk management. We, therefore, follow the 'Three Lines of Defence' model. In this model, each line plays a vital role that is supported by relevant policies and the appropriation of responsibilities. The aim is to facilitate knowledge and information sharing across different functions and levels, thereby enabling successful goal achievement.

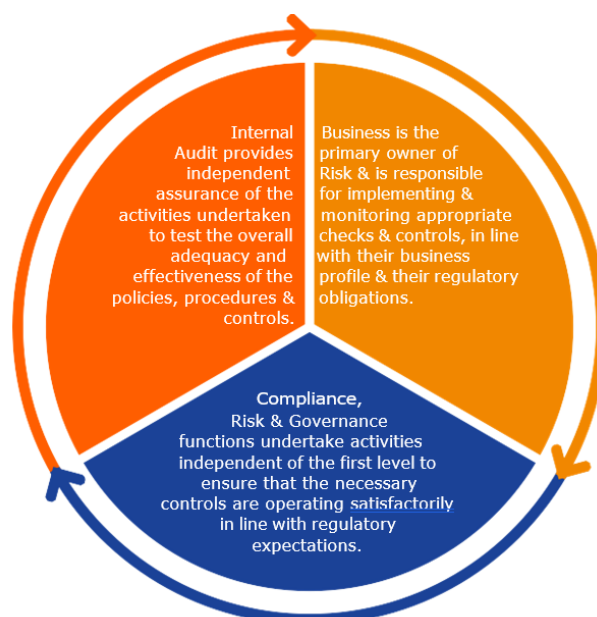


Figure 13: Three Lines of Defence

- Each level has a crucial role to play and should be supported by appropriate policies and role definitions.
- There should be proper coordination among the separate levels of control to foster efficiency and effectiveness.
- Control functions operating at the different levels should appropriately share knowledge and information to support all functions in accomplishing their roles in an efficient way.

7.4.1 Main attributes of our Risk Management Framework

The main attributes of our Risk Management Framework are:

- To clearly communicate the Risk Appetite Statement that encompasses all of Mashreq's activities and guides our Risk Management Strategy.
- To prioritize the application of technology to processes to facilitate higher accuracy and efficiency.
- To encourage portfolio management with established guidelines and limits.
- To optimize the use of credit analytic capabilities for business decision-making.
- To constantly improve our cyber risk and fraud management approach.
- To ensure stringent and detailed approval process for each new product, while strengthening the collection and recovery function of our retail banking sector.

Group Compliance maintains robust controls to mitigate Compliance risks. Mashreq has a 'Zero tolerance' to knowingly facilitate financial crime risks or breach of applicable laws. The Compliance framework is built on risk-based approach supported by policies, risk assessment, controls, training, independent

assurance, and audit. In 2023 Group Compliance shall continue focus on the geo-political risks, Compliance culture & training, enhancing the preventive controls and other regulatory requirements.

7.5 Auditing

Mashreq's operations are audited by the Board Audit Committee. It is the committee's responsibility to conduct regular assessments and reviews to address acts of negligence and/or misuse of authority. Once such acts are identified, they are escalated to the board depending on the severity and impact. To support good governance and provide clarity on the responsibilities and scope of authority, we use the following reporting lines.



Figure 14: Reporting Lines

7.6 Information Security – PCI DSS

In an ever-evolving cyber threat and risk landscape, it is imperative that we raise the bar on our Data and Payment eco-system security. The Payment Card Industry's Data Security Standard (PCI-DSS) framework is one of the most stringent security requirements administered by PCI Security Standards Council (SSC) and mandated by the CBUAE.

Mashreq UAE including Cloud and Digital Stack along with its Center of Excellence in India (MGN), has achieved the PCI-DSS compliance certification for 2022, thus ensuring that the security of card data at Mashreq complies to the most stringent set of security requirements established by the PCI SSC.

Through our investments in cutting-edge technology, we have continued to pioneer digitally enabled payment card services. This certification is testament to the highest security standards that we follow in creating a secure and convenient digital banking ecosystem, making it possible to safely handle payment information and reduce the opportunities for identity theft and fraudulent transactions. The focus for 2023 would be to enhance our card data security and achieve compliance to PCI-DSS 4.0.

7.7 Rise Every Day - new identity and customer proposition

Through an invitation to 'Rise Every Day', we have revealed a historic brand evolution with a transformation of its corporate identity and overarching strategic purpose as an enabler of inclusive financial, personal, and professional development.

"Rise Every Day" talks directly to people all over the world who look to corporations for guidance, expertise, and a helping hand, reflecting our commitment to equipping people with the practical tools and life skills they need to get the most from how they live their daily lives, and how they engage with the digital economy. The move is a landmark evolution that will see us adopt a challenger brand status as we seek to achieve social and economic impact by supporting the aspirations, dreams and needs of every customer.

With an invitation to everyone, everywhere to unlock their personal vision of success, “Rise Every Day” captures our mission to be the region's most progressive challenger bank through a collaborative, digital-first approach to building a new banking-as-a-service (BaaS) – an approach that goes way beyond banking as it used to be and delivers the best-in-class experience for its customers.

Our new brand identity is anchored on a three-pronged approach of 'innovation, consistency and prudence' towards customer experience. This stems from the convergence of innovation towards futuristic value and to create an ecosystem that is agile enough to evolve dynamically and incessantly to support the changing needs and wants of customers every day.

7.8 Digitisation & Customer Experience

Technology is rapidly evolving at a breakneck speed. Banks need to adapt, and they need to do so quickly. Our story has been defined by a readiness to adapt – and we have forged a unique role as leaders of change, thus being able to provide the best-in-class experience and solutions to our customers. As a challenger bank, we invest in digital and e-commerce solution as an enabler of personal and professional fulfilment – beyond financial services. We now exist across multiple ecosystems, investing in financial and non-financial e-commerce solutions that form what we now are - and what we set out to achieve.

At the centre of these relationships is an unwavering commitment towards customer centricity. Whether it is transforming ideas into solutions, or harnessing digitization to provide a seamless banking experience; developing products that empower and meet the needs of customers’ is a value deeply ingrained within the bank. Through our digital-first approach, customers can benefit from a banking experience that is convenient, tailored to their needs, and meets their evolving demands.

From our perspective, digital success depends on delivering the customer experience rather than on a specific product or proposition. Our business and its supporting digital enablers have been built around the delivery of superior customer experience through existing growth platforms and continued investment in digitization and transformation programs. As far as the future of banking is concerned, we are moving into a period that will see the blurring of industry ecosystems and an increased focus on innovation and AI driven personalization of all customers journeys on both retail and wholesale banking fronts.

We have a legacy of over 55 years and a proud history of delivering innovative and pioneering products that meet customers’ ever-changing needs. Everything we have done for decades now has revolved around our customers. For this very reason, we wanted a new brand identity that reflects the distinctive character of this new pursuit in a way that excites our clients and our people alike. Our core focus is to challenge the status quo, inspire our customers, and build a banking-as-a-service ecosystem fit for the digital economy – a framework that supports and encourages every customer to Rise Every Day to inspire and realize their dreams.

7.8.1 Focus Topic: CX Charter

At Mashreq we are committed to ensuring that our customers receive proficient, responsive, and friendly service on every occasion. A CX Strategy is only good if it inspires people to act and for that reason, we have shaped our CX Charter in line with Mashreq’s objective to enrich Customer-Centricity. The CX Charter talks about Mashreq’s Vision, i.e., Delivering Client Experiences that create mutual value and highlights

our CX Capabilities, Strategic Priorities, CX Servicing Pillars and Our Employee Commitment that will enable us to become #1 in Client Experience.

It is intended to enable and enhance the CX focus to achieve Organizational CX Goals and fundamentally envisages service principles, Bank's service standards, customers' rights, and responsibilities.



Figure 15: CX Charter

7.9 Debt counselling at Mashreq

Consumer Protection Regulation (CPR) Guidelines, provides an understanding of what is expected from the lending institutions, and we as one, are directed to treat financially distressed customers fairly. The CPR guidelines mandate banks to provide debt counselling services for financially distressed or overleveraged customers, who reach out to the bank. Banks are expected to help customers by:

- facilitating them to understand how to gain a better understanding of their finances so that they may learn to better manage it.
- helping them realize the importance of having a budget, tracking expenses, and ensuring that debt obligations are best paid on time and that having debt arrears not only impacts their credit rating but also costs more to regularize.

Debt counselling at Mashreq will be offered by a specialized team, trained in counselling services. Customers can reach out to the bank through the contact center or by visiting one of the branches. It is therefore important for all Mashreq staff, to understand the requirement and identify customers who would benefit the most from availing debt counselling services.

We have also set up a dedicated section for debt counselling on the website. The focus is to educate customers and provide them with some simple tools to help them manage their debts. It introduces important ideas like tracking income from various sources, tracking expenses and then creating a household budget to manage their finances better. It also provides them with some easy formats to track such activities and learn from them. Customers can visit mashreq.com/debt-counsel to access the debt counselling section on Mashreq website.

8. Sustainable Finance

Creating long-term, sustainable economic development requires developing answers to environmental concerns such as climate change. The financial industry plays a unique role, notably in mobilising the resources required to develop innovative technologies and create sustainable infrastructure.

Mashreq is committed to assisting businesses in taking action to address the environmental and sustainability challenges that our planet faces. To that end, we provide a variety of Sustainable finance products and services to support our customers in their sustainable journey.

At Mashreq, we use our expertise to promote sustainable business practices and assist our clients in responding to and driving new solutions to the world's concerns. This involves collaborating with customers to facilitate the transition to a low-carbon economy and delivering sustainable investment and financing products.

We have a role to play as a leading bank in facilitating the transition towards an inclusive and net-zero economy. Through our responsible banking products & solutions, we support this transition by directing financial flows toward more sustainable and climate-friendly solutions. Mashreq assists clients all over the world in raising sustainable financing.

In terms of specific figures, over the past 2 years we have facilitated USD 15.5 billion of sustainable finance. In addition, we facilitated USD 1.3 billion in water-related projects across Egypt, India, Bahrain, Qatar, and the UAE, which will build resilience to scarcity and climate-related disaster.

Our focus for the coming years will be working towards increasing the amount of sustainable finance we facilitate significantly to reach **USD 30 billion by 2030**. We are expecting robust demand for sustainable finance as our clients start to implement their transition strategies and seek to reduce their carbon footprints and we are ready to invest and advise.

We have been on a learning journey in the past years. Sustainable finance is still relatively new in the countries in which we operate, and we have been consulting experts, building awareness, and adding new skillsets to our workforce to engage with the topic. It has been something that our employees have embraced, and we now have a team of experts capable of working across multiple countries and regions

Mashreq has been heavily involved in financing solutions for projects like the Abu Rawah Wastewater Treatment Plant in Egypt. That project will benefit more than 8 million people mainly in the Giza Governorate, the Eastern side of the River Nile, and Cairo-Alexandria Desert Road. It has also generated 1,600 jobs, 20% of which are for women, so there is also a wider positive social impact. And that is just one of our projects.

Our greatest achievement thus far has been leading the Sustainability-linked Loan for noaholding in Bahrain - at USD 2.2 billion, to date it is the largest SSL in the region.

8.1 Climate Commitment

We recognize that climate change is creating risks and potential opportunities for our clients, our communities, and for our bank. We are committed to the goals of the Paris Agreement and UAE NetZero 2050 initiative. We have and will continue to act proactively to address the risks from climate change.

Our participation in and sponsorship (as an official supporter) of the 2022 United Nations Climate Change Conference, COP27 is a testament to our commitment to further efforts to raise awareness and engagement across the region about the global climate challenge.

There is a crucial need to deliver more innovative financing solutions, grants and concessions to help developing countries with mitigation and adaptation. As one of the leading financial institutions in the MENA region, we are in active discussions with several entities that are looking to explore sustainable financing for the first time, providing them with guidance and advice.

Here's what we aim to achieve in the future:

- Fully integrating Sustainability and climate change management into our corporate strategy with focus on innovation and responsible products and services by 2025.
- Demonstrating best practices in our own operations towards Net Zero by 2050.
- Helping our customers to reach their sustainability goals through various products/services.
- Promoting Sustainable living through developing simple and attractive Green Mortgages
- Declaring 2023 as the year of sustainability by the President of UAE His Highness Sheikh Mohamed bin Zayed Al Nahyan will accelerate UAE's journey towards a greener economy and will act as a perfect segue to COP 28 taking place this year in UAE, which we are looking forward to support

8.2 Climate risk

We recognize Climate risk as an emerging risk to our assets, business, and operations. Climate risk is the risk of loss emanating from Climate change – the long-term shifts in temperatures and weather patterns. These changes occur naturally and in the recent years, have mainly been driven by human activities such as burning of fossil fuels. Climate risk is likely to have an impact on the principal risk categories (i.e., credit, market, operational and liquidity risks), however, due to its pervasive nature has been identified and monitored by the Group on an overall basis.

We are actively working towards establishing the approach for managing Climate risk including defining a set of Sustainability Performance Indicators (SPIs), Climate risk governance, financial disclosures, and guidelines for identifying relevant risk factors. We are also working towards meeting stipulated regulatory reporting requirements in the relevant jurisdictions.

We assess the exposure to climate changes risk by implementing scenario analysis and stress testing based on outcome of the modeling of natural catastrophic events exposure and by reviewing an impact on group's profitability and solvency. The scenarios analysis covers different lines of businesses, countries, perils and return data. Overall, the outcome shows that we are well capitalized to reasonably absorb most of the shocks from the various scenarios included into the stress test. We are planning to release our TCFD reports in the coming years to provide further disclosure.

8.3 Focus Topic: Sustainability Linked Loans

As it has been pointed out in numerous climate forums over the last several months, USD 2.4 trillion annual investment is required to achieve climate goal and limit the global average temperature increase to 1.5 or 2 degrees Celsius by 2050. It has also been highlighted that the USD 2.4 trillion is not sufficient and USD 4-6 trillion may be required each year to transition to a low carbon global economy. However, the reality is that the pledged investments towards climate goals have fallen behind year after year. That

said, out of USD 2.4 trillion, it is estimated that USD 1 trillion will be financed by the private sector, a figure that can be reached through the avenue of “sustainability linked financing” amongst others.

In this context, what instruments has the private financial sector got to enable and accelerate progress towards its climate financing objectives? For one, sustainability-linked loans (SLLs), which are a form of financing that incentivize an organisation to implement sustainability goals. Rather than being directed to a purely green project – such as solar energy or green hydrogen- an SLL can help a traditional industry reduce its environmental footprint or improve its ESG metrics. As the transition to reach the UAE’s national Net Zero by 2050 commitment is underway, it is essential that, in addition to accelerating green efforts by building up zero-carbon infrastructure, we clean up the transportation, logistics, metals and energy sectors. Within this framework and despite not being the only available vehicle towards climate financing, SLLs are likely to become one of the most popular ways to source and direct money for transition plans.

Both the companies in these sectors and banks are feeling pressure to establish and execute strong ESG and transition strategies. Investors are looking closely at environmental credentials as part of their due diligence process and investing requirements. Energy providers, similarly, are grappling with the energy trilemma of energy security, affordability, and transition. Here, the focus is on two areas of action. The first is increasing the energy efficiency of processes, which is by many regarded as low hanging fruit as energy operations are traditionally highly carbon intensive. The second area focuses on advancing new technologies such as energy storage and transition, which are still in the early stages of development but have immense potential for scalability as they become more affordable.

8.4 Case study 1: The nogaholding example – sustainability-linked financing in action

For many organisations, including nogaholding - with which Mashreq and Gulf International Bank B.S.C. led the largest SLL in the region’s history - sustainability -linked financing is the solution to satisfy stakeholders while achieving their transition and sustainability goals. The Kingdom of Bahrain has made a 2060 net zero commitment and His Royal Highness the Crown Prince has committed to a 30% reduction in GHG by 2035. As nogaholding is a key contributor to national GHG emissions, the organisation has an important role to play in the energy transition decade that lies ahead by finding paths to support Bahrain’s national goals and reduce its own GHG emission intensity by 20% by 2025.

The initial target of the SLL was to raise USD 1.6 billion, but the deal was 2x oversubscribed and ended up raising USD 2.2 billion. This kind of deal sends a clear signal to businesses’ stakeholders that nogaholding and the Government of Bahrain are serious about the transition journey, and for banks like Mashreq, it demonstrates that there is a clear and reliable risk management process behind investment decisions. nogaholding’s SLL was a prime example of real partnership between the stakeholders and Mashreq, and a great success which demonstrates the growing appetite in the market for this kind of transition financing.

One of the recommendations for a SLL is that a transition plan needs to be in place. As part of the process of calibrating the Key Performance Indicators (KPIs) and targets, banks play an active role in advising clients on what actions, processes, and strategies they need to implement to get to net zero. As part of this process, it is important to demonstrate that the targets are truly ambitious and not just business as usual. There are checks and balances in place to identify whether targets fail to go far enough, and deal coordinators are likely push back if targets are not sufficiently ambitious.

Together, nogaholding, Mashreq and Gulf International Bank B.S.C which coordinated the sizable deal agreed on ambitious and appropriate targets around emissions and health and safety. nogaholding employs around 15,000 people and set an ambitious target to reduce the number of safety incidents to zero.

Having third-party verification of compliance results is an important SLL principle that enables assurance and prevents greenwashing criticism. Eventually, we expect that regulators will introduce mandatory ESG reporting – from emission intensity to health & safety credentials – that will have to be audited by third parties, so this is the first step in anticipating that scenario.

8.5 Case Study 2: Vedanta Aluminium raises USD 200 Mn in Sustainability Linked Loans

Vedanta Aluminium, India's largest producer of aluminium, has raised USD 200 million through Sustainability Linked Loans (SLL) from reputed international banks, for financing its capex initiatives.

The loans were granted based on specific performance parameters for decarbonization and safety. This will fuel the company's growth journey as well, including achieving a higher degree of backward integration and production of value-added aluminium products.

The lenders include some of the largest international banks from the Middle East and Far East like Mashreq (sole mandated lead arranger & bookrunner and sustainability coordinator), First Abu Dhabi Bank, Qatar National Bank, CTBC Bank, Taishin International, Taiwan Cooperative and Afrasia bank, all of whom have newly started term lending relationships with the Vedanta Group through this facility.

This is Vedanta Group's first such sustainability-linked facility and sets the ball rolling on the company's aspirations to invest in green growth. This serves as a positive reinforcement of the company's endeavours to decarbonize its operations. For instance, Vedanta Aluminium has reduced its greenhouse gas (GHG) emissions intensity by 24% in FY 2022 from 2012 baseline. It was also India's largest consumer of renewable energy in the previous fiscal at 3 billion units, which was used to produce India's first low carbon 'green' aluminium by the company, branded 'Restora'.

Speaking about the funding, Mr Rahul Sharma, CEO – Aluminium Business, Vedanta Ltd. said, "Aluminium will be indispensable to a low-carbon future, with critical applications across a vast spectrum of industries ranging from electric vehicles to renewable energy and more. We intend to conceive our growth plans on the bedrock of sustainability, with a sharp focus on people safety, decarbonization of our value-chain and water positive operations. The funds raised via Sustainability Linked Loans will be invested towards growing our business sustainably and responsibly."

Tarek El Nahas, Group Head of International Banking at Mashreq, said: "We are delighted to take part in this flagship deal and partner with Vedanta Aluminium, one of the leading aluminium producers in India, in its first sustainability-linked loan. We see the transition to a low carbon and resilient economy as a real opportunity to double our commitment to sustainable finance and invest in sectors that will drive economic growth and create the jobs of tomorrow. This partnership represents a notable addition to our robust sustainability framework that we are developing to create more value for our people, our customers, and our shareholders."

8.6 Decarbonization and Climate Action (DACA) Awards

We are proud to announce that Mashreq has won two prestigious Decarbonization and Climate Action (DACA) awards at the Arab Green Summit.

- ✓ 'Leader in Environmental, Social and Governance'
- ✓ 'Torch bearer of Sustainable and Climate Friendly investment'

Mashreq is a leading sustainable finance provider with approximately USD 15.5 billion being financed and facilitated in the last 2 years. We have received widespread recognition for the support we provide to clients. We will continue to intensify the support we provide to help our portfolio of customers thrive in the transition to a low-carbon economy and build a more sustainable future.



Figure 16: ESG Awards

9. Our People

Mashreq's greatest asset is its workforce. Our employees are a reflection of our purpose and, without a doubt, an important engine of our success and development. This exact purpose has shaped and influenced our people-first culture over the course of more than 50 years. Our goal is now to exceed social standards by investing in further improving our employees and community efforts to maximise our impact.

9.1 Talent Attraction and Retention

Our exceptional human resources have guided our organization's long history of growth, ongoing achievements, and future aspirations. By fulfilling employee value propositions, we are dedicated to developing a supportive and diverse team. We have been recognised by Glint (a LinkedIn company) as one of the best workplaces in the world thanks to our strategy and wide range of initiatives, some of which include the development of inclusive employment opportunities, rewarding pay and benefit packages, and outstanding training and development opportunities. With the abilities and attitudes required to

promote exceptional performance and long-term success, this strategy aids in attracting, hiring, developing, inspiring, and retaining top talent.

Table 8: UAE Workforce

UAE Workforce Overview	2021		2022	
	Number	% Of Total	Number	% Of Total
Total Workforce	2,392	100%	2,498	100%
Full-time Employees	2,303	100%	2,433	97.4%
Part-time Employees	0	0%	2	0.1%
Employees on an indefinite or permanent contract	2,303	96.27%	2,435	97.5%
Contractors and /or consultants	89	3.73%	63	2.5%

Table 9: UAE Workforce by Contract Type & by Region

UAE Workforce Overview 2022	Contract Type	
	Permanent	Temporary
UAE Workforce Total	2,435	63
UAE Workforce by Gender		
Male	1,597	22
Female	838	41

UAE Workforce by Region	
Dubai	2,318
Abu Dhabi	73
Sharjah	32

Ajman	12
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In FY2022 we hired a total of 688 employees. The table below depicts the breakdown of new hires based on gender and age group.

Table 10: New Hires

Total New Hires	2022
New Employees by Gender	
Male	429
Female	259
New Employees by Age	
Under 30	149
30 to 50	523
Over 50	16

In the same year, 567 employees left the bank. The percentage workforce turnover was 23%. The table below depicts the breakdown of employee turnover based on gender and age group.

Table 11: Employee Turnover

Employee Turnover	2022
Turnover by Gender	
Male	400
Female	167
Turnover by Age	
Under 30	85
30 to 50	458
Over 50	24
Total Employee Turnover %	23%

9.2 Diversity and Inclusion

As an equal opportunity employer, we are dedicated to fostering a culture that values everyone with respect, equality, and dignity. The ethnicities, genders, languages, age groups, life experiences, physical and mental capacities, and thinking styles of our employees are diverse.

Our workplace diversity has significantly helped us to promote engagement, stimulate creativity, broaden our talent pool, and enhance productivity. This has had a direct influence on our company's ability to provide outstanding customer experiences.

With 2,435 employees, representing 58 nationalities, we take immense pride in our culturally diverse workforce. We are also wholeheartedly committed to increasing job opportunities for Emirati citizens. In FY2022, Emirati nationals represented 21% of our total workforce.

	2021	2022
Number of Nationalities	58	58

We have implemented flexible working hours, work-from-home options, and a 'New Mother's Room' for our female staff to encourage greater gender diversity. We have observed a consistent increase in female participation across our workforce as a result of our efforts to encourage female inclusion, empowerment, and establish equitable chances for advancement. As of 2022, we are delighted that women make up 34.4% of the total workforce. Over the next two years, we hope to achieve close to a 50:50 gender ratio and double the number of women in top management positions.

Table 12: Gender Diversity by Hierarchy

Hierarchy	Male		Female	
	Number	% of Total	Number	% of Total
Entry Level	711	44%	565	67%
Middle Management	719	45%	247	29%
Senior Management	167	10%	26	3%
Board of Directors	7	0%	0	0%
Total Enterprise	1,604	100%	838	100%

We are committed not only to equal representation, but also equal access to financial security and benefits. Hence, our compensation structures do not differentiate by gender. In FY2022, we evaluated the median compensation and identified the male to female compensation ratio as 1.36:1.

The inclusion of People of Determination (PwD) is another core focus area under our diversity initiatives. We have made our offices PwD-friendly and created opportunities for flexible working arrangements. We now aspire to recruit a minimum of 50 PwDs globally over the next two years.

We periodically evaluate and disclose our performance on different diversity parameters by assessing progress against defined goals. These goals and respective action plans target equality in managerial roles.

These disclosures hold us accountable for the progress we endeavor for in becoming a transparent, inclusive, and an equitable company.

9.2.1 Focus topic: Mashreq ‘Hire for CSR – Covid Widows Program’

Mashreq’s “Hire for CSR” is a flagship initiative that is designed to support individuals that are impacted by catastrophes (Covid widows, natural calamities, epidemics etc.) return to the workforce/employment by providing them an opportunity to work with Mashreq Bangalore. The covid widows program runs in 7 stages.

Step 1: Identifying roles that are exclusive to impacted women.

Step 2: Run a campaign and invite applications from women who have lost their family/spouse during the pandemic and have no source of income.

Step 3: Running assessment centers.

Step 4: Onboarding & Induction

Step 5: Training, mentoring and EAP support.

Step 6: Handholding and monitoring their performance for a period of 6 months.

Step 7: Absorbing them into permanent roles via Mashreq Careers assessment.

9.2.2 Focus topic: Mashreq ‘Returning Mothers Program’

Mashreq has put in place, the “Returning Mothers Program”, curated with a special focus on aiding new mothers/women who are returning to work after a career break. The six-month programme aims to promote diversity and boost the work experience and networking opportunities for returnees. During this period, women are assigned career counsellors, engaged in workshops and development plans, and provided extended support for on-job training to ensure that their transition into work is smooth and empowering.

We present the inspiring story of one of our very own Mashreq moms - Aafreen Azim Shaikh. After taking an 8-year break from her career to devote her attention towards raising her daughter, Rafa, Aafreen recommitted to working full-time through Mashreq’s Returning Mothers program. With this new role, Aafreen aims to not only bring in financial security but also become a role model to her daughter. Read more at <https://www.mashreqbank.com/en/uae/about-us/our-company/life-at-mashreq/story-detail-2/>

9.3 Learning & Development

As previously mentioned, we view our employees as our most valued asset, and as such, we are committed to fostering an atmosphere in which they can develop as individuals and as a team. By offering a variety of training and development programmes over the years, we have continually invested in the professional development of our staff.

9.3.1 Learning and Development – Policy

At Mashreq, we place great importance on achieving business outcomes through upskilling of the workforce around both technical and soft skills. The Learning and Development function of the bank is focused on developing the skills and knowledge of the employees to help them succeed in their current roles and prepare them for future roles that will come up in the bank.

As an organization, we make significant investments in HCM technology and Learning resources to provide an effective learning environment for our employees. These measures include providing access to a wide range of learning methods and programs for employees to develop their skills.

9.3.2 Training Programs for different Talent Segments

Different Talent segments in the bank have varied learning needs. We tailor training programs to suit the requirements of different talent segments based on the learning outcomes that the business wants to achieve through these training programs. This section defines some of the key training initiatives for different talent groups within Mashreq.

New Hires

All new hires go through an E-Orientation online curriculum. This curriculum is auto assigned to all new hires on the Enterprise Learning Management System (LMS) and needs to be completed within 60 days from their hire date. The online courses are aimed at teaching employees basic legal and policy-related rules and regulations and orienting them to the organization's history, culture, strategy, and structure.

We also offer role-based induction for new hires in frontline roles across our Retail Banking Group. The objective of these training programs is to ensure that employees understand their new jobs and all related expectations.

People Managers

Culture is the glue that binds the organization and helps employees achieve the stated Vision and Mission of the organization. We have committed to provide a world class experience to our customers and communities that we serve. To achieve this stated goal, we have defined a Mashreq Culture Blueprint comprising of desired mindsets, behaviours and skills required to achieve the stated goal. Starting 2022, we have launched a series of workshops to upskill our People Managers on our culture blueprint. These training workshops equip our leaders with tools and skills to cultivate the desired mindsets, behaviours, and skills in their teams.

UAE Nationals

In line with our commitment to develop local talent, Mashreq invests extensively in developing our UAE National colleagues to upskill and fast track their career progression in the bank. We deliver bespoke programs titled ACE - to upskill UAE Nationals become Relationship Managers in Corporate Banking. A program called Mashreq Al Mustaqbal has been created to help fast track young graduates into a career in banking. As a policy, we offer Tertiary Education support to UAE Nationals who want to pursue higher studies for career progression. UAE National Employees who enroll for Tertiary Education can reimburse their tuition fees after submitting proof of payment and progress.

In addition, we conduct tri-partite meetings with high performing UAE Nationals and their line managers to create Individual Development Plans (IDPs) for these employees. The progress and completion of the IDPs is tracked and reported periodically.

All Employees

The online courses hosted on the Enterprise LMS are open to all employees for upskilling. Some of the compliance courses are mandated for all employees while other technical courses are optional. We continue to invest in building training courses on the bank's strategic priorities such as ESG and Digital Transformation. These training courses aim to build awareness and capability on these key topics.

We recognize that our employees might want to enroll in training courses and certifications offered by international bodies and reputed training institutes / business schools to learn new skills that are relevant for their current and future roles. As a policy, we allow employees to enroll in External Training Programs and Certifications that are relevant to their current or future role, subject to their line managers approval. In FY2022, we significantly increased investment in training hours across levels. Total hours amounted to 83,845 up from 76,970 in FY2021. The total hours invested into training have been further categorized basis male and female. (Shown below)

Table 13: Training Hours

Training Hours in 2022			
Employee Category	Male	Female	Total Training Hours
Senior Management	205	15	220
Middle Management	40,081	33,089	73,170
Branch Managers	131	113	244
Junior Management	3,968	921	4,890
Bank Employees	3,345	1,976	5,321
Total Training Hours	47,731	36,115	83,845

	Unit	2022
Amount invested in training	AED million	11.50

9.3.3 Learning Metrics

At Mashreq, we track and report the following metrics on Learning and Development:

- Total Training Man-days completed by all employees.
- Average Training Man-days completed by all employees.
- Training spends as a percentage of Operational Expense (OPEX)
- Training spends as a percentage of Wage Bill
- Average Training Effectiveness score
- Percentage of IDP completion for High-Potential employees

These metrics help us keep the focus on employee training and development and make required calibrations when required.

9.4 Human Rights

We completely support and respect human rights protection in all of our countries and regions of operation, guided by our integrity values. We not only follow applicable rules and regulations, but we also actively advocate practices that strengthen human rights both within and beyond our value chain. This involves defining standards for our employees, client and customer interactions, business relationships, and the communities we serve.

As a prominent financial institution, we understand our role in recognising and addressing violations. To underscore our dedication to this obligation, we developed a Human Rights Policy that outlines our approach to promoting business practices based on the principles of justice, equality, and respect for

everyone. Our commitment to human rights protection and promotion is further incorporated into group-wide policy. This includes our Code of Conduct and Supplier Charter, which explain the expectations we have from our various stakeholders in upholding the highest standards in human rights protection and promotion.

We do not track and monitor collective bargaining agreements as there is no law mandated by the UAE government.

9.5 Non-Discrimination

Mashreq, as an equal opportunity employer, has invested in creating and fostering a working environment based on the principles of equality, fairness, and safety. We commit to provide our employees with equal access to opportunities free of discrimination and harassment. All aspects of work, including recruiting, job allocation, transfer, access to benefits, salary, and advancement, are merit-based. We do not accept any sort of discriminatory behaviour, whether within our workforce or throughout our supplier chain, in accordance with our non-discrimination policy.

We have also put in place mechanisms to encourage employees as well as other parties to report all acts of discrimination or harassment, whether they are victims or witnesses. Allegations are treated discreetly through a thorough process of inquiry and remedial action through our grievance redressal system, which is backed by our Whistle-blowing Policy, which is available to all internal and external parties.

9.6 Occupational Health & Safety

In recognizing the key role that our employees play in the success of our business, investing in their health, safety and well-being is a core priority. We take responsibility for their physical, mental, and emotional well-being by providing a safe and healthy working environment, with national safety regulations set as the minimum threshold. We focus on introducing new initiatives, tools, and programs that support our employees' well-being and allow them to perform at their best. We also further plan to design and implement a Group Occupational Health and Safety system to create a systematic approach to managing, mitigating, and monitoring health and safety risks at the workplace.

In FY2022, we reported zero such cases of work-related illnesses, injuries, and fatalities among full-time, part-time, and contractor employees.

9.7 Spotlight: Career Progression Guidelines – The Mashreq Way

We strongly believe that our employees are our greatest asset, and the platform on which Mashreq's success has been built over the years. We see this being even more true in the future, as our worldwide talent take us to even higher levels of performance in a fast-changing world. This is best done by having a significant proportion of employees that are committed to building their career at Mashreq.

The Mashreq approach to employee careers should be seen through the lens of the following explicitly stated principles:

- **Joint Ownership:** Each employee at Mashreq is the CEO of their own career. The individual, respective line manager and the bank need to work in partnership to help fulfil employee career aspirations.
- **Equal opportunity:** When the scale of jobs grows, or positions open up, we would like to run a fair and transparent process allowing the job to be opened up to allow the best possible candidate to be identified.

At Mashreq's People & Intellectual Capital Group, we place our employee's professional development at the heart of everything we do. Over the coming months, we will strengthen our offerings to people learning and create a definitive guide to career progression.

However, it is important to note that planning one's career is one of the most important activities that an employee should be doing. Yet, while an employee needs to build their own career planning strategy, Mashreq is committed to creating an environment in which employees have a line of sight around jobs that are available in the organisation. The Mashreq Careers Programme acts as a robust platform in catering to our employees' career aspirations and goals. The Mashreq Careers programme ensures that all vacancies that arise either through attrition, creation of new roles and/or existing roles being upgraded are duly advertised to our employees at the outset giving them an opportunity to apply and be evaluated on merit and fit for the requirements of the role.

In line with our philosophy of selecting the 'best fit' for any vacant role the organisation also invites external talent to apply for all such opportunities thereby creating a competitive and transparent process through which the most suitable candidate gets hired into the job.

We will work closely with all hiring managers to assess and evaluate a candidate pool consisting of both internal as well as external talent for any vacancies that open up across the organisation. Every employee has an opportunity to apply. However, it is encouraged that you only apply to those jobs that are aligned to your career aspirations, not just a case of applying to any and every release.

While details of the Mashreq Careers process and policy are available in the PICG Policy manual, a few salient points of our approach are provided below:

1. All jobs (new/ upgrades) across the organisation will be advertised through the Mashreq Careers programme. Job upgrades as a result of re-evaluation of a current job to the next higher grade will also be advertised through the Mashreq Careers programme.
2. The Talent Acquisition team will also commence a search for external candidates which will have a lead time between 2-4 weeks to source candidates once the target profile has been agreed with the hiring manager.
3. Hiring managers will interview both internal as well as external candidates provided to them and select the most suitable candidate for the job from amongst this candidate pool.
4. Internal employees selected for any upgraded job will be offered the new grade and salary immediately on assuming the new role. They will have a 6 month 'Performance Assessment Period' in the new role.

9.8 Spotlight: #Disconnect after workhours

At Mashreq, we want to maintain a positive and nurturing work environment for everyone, from the employees starting their careers with us to Senior Management; to Rise Every Day, because we believe that peace of mind and healthy work ethics not only ensure 'employee happiness' but the overall performance of Mashreq.

But Human Resources team can't do it alone. While we see and appreciate the level of dedication and passion that each one of our employee exhibits towards their role at Mashreq, we ask our employees to be mindful of their expectations from other employees, such as avoiding the need to contact employees

after work hours and giving themselves the much-needed time to switch off from work-mode and pursue their personal goals and aspirations.

We encourage each of our employees to join us in creating and maintaining a positive environment that is sustainable, productive, collaborative, and most importantly with room to breathe.

We encourage our employees to [#DisconnectAfterWorkHours](#). Here are some tips to help us all maintain a healthy work-life harmony:

- **Respect boundaries** - It's important to know what's an OK time to contact an employee directly, especially during their personal time after work hours. We strongly advise that only in case of emergencies must you do so.
- **Be realistic** - It's fair for highly driven managers to expect similar standards from their employees, but not outside of work hours. Factor in post-work time and work time and allot tasks appropriately.
- **Be consistent** - If you have agreed to only contact your staff in the event of a crisis, stick to your word. Don't be tempted to text or phone them about day-to-day issues that can be dealt with at work the next day.
- **Don't call after 06.00 pm** - As a rule of thumb, keep 6 PM (recipient's time) as the cut-off for all work calls. Only call after office hours in the event of an emergency.
- **Be respectful** – No matter what the situation is, if an employee's family member answers their phone, use utmost respect. Communicate with them as you would with your own family. And remember, after all, we are all One Mashreq.
- **Show appreciation** - Let your staff know that you are grateful for their after-hours help.
- **Monthly Motivation Days** – Have a small group to catch up monthly to understand the work environment and appreciate the best employees of the month.

Whether it's a crisis or not, we at Mashreq are always in it together. Our employee's wellbeing is of utmost importance to us, and we hope that these tips will help our team in some way to work better, live better and help everyone around them to Rise Every Day.

10 Positive Community Impact

Since inception, Mashreq has promoted activities that give back to the community. Across all its regional offices in the UAE, Bahrain, Kuwait or Egypt, Mashreq prides itself on the role it plays in positively impacting on the world around it through socially responsible activities. Our CSR philosophy reflect this and defines Mashreq CSR as "the integration of stakeholders' and customer's society, community and environment into a company's business operations."

As a socially responsible organisation, we strongly believe that supporting socioeconomic development through CSR not only has a positive impact on our shared society, but also strengthens the bank's long-term success and stability. Giving back aligns with our core purpose, corporate values, and is strongly established in our company culture, as defined in our CSR policy. We officially began our CSR Program in June 2011, which is overseen by the CSR & Internal Communications Unit, with assistance from the Emiratization HR Unit and the UAE National Learning & Development Unit. Since then, we have been an active member in nationwide annual days such as the 'International Give and Gain Day' and 'UAE Humanitarian Day' to name a few.

We have subsequently supported a variety of philanthropic initiatives aimed at assisting young people, the impoverished, health and wellbeing, art and culture, gender equality via female empowerment, and the inclusion of People of Determination. We have expanded our scope, reach, and impact on society via a combination of volunteerism and partnership with other organisations.

In fiscal year 2022, we invested AED 1 million in the community, representing 0.013% of annual revenue.

10.1 Focus Topic: 1 Billion Meals initiative

The “One Billion Meals” was the biggest humanitarian initiative of its kind in the region. It aimed to secure food aid for vulnerable communities in 50 countries around the world. It provided food support to those in need, representing a grand statement of the UAE’s aspirations in humanitarian aid and firm commitment in developing long-term solutions to improve lives across the world, without any discrimination.

The One Billion Meals campaign was an expansion of the UAE’s previous Ramadan campaigns “100 Million Meals” and “10 Million Meals”, organized under the directives of His Highness Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of UAE and Ruler of Dubai.

Mashreq has joined this great initiative, the largest of its kind in the region, which aimed to provide food support to the underprivileged and undernourished in less fortunate communities throughout 50 countries across the world.

The pledge to contribute to the 1 Billion Meals initiative reinforced Mashreq’s commitment towards sustainable social and economic development, and helped further enhance the UAE’s status in global humanitarian work, through its communities, business, and operations.

10.2 Focus Topic: Mashreq Abdulla Al Ghurair Foundation for Education tie up

Mashreq has signed a strategic partnership with the Abdulla Al Ghurair Foundation for Education to support its recently launched Nomu Initiative. The multi-sector national youth development project is designed to impact 25,000 Emirati nationals with market-driven, industry-led training and work integrated learning opportunities to improve their employability and support the national priority areas of the UAE.

Under the initiative, Emirati youth will benefit from structured work integrated education models where they are given the opportunity to work in an industry related to their field alongside their academic education. The program involves the private sector and universities working together by applying real-world learning, keeping up with technological skills and solving workforce challenges.

Mashreq and the Foundation will select high-achieving graduates each year from TechUp a pathway project under the Nomu initiative designed to support foundational and practitioner level digital literacy skill development. The students will receive paid internships at Mashreq, with the potential to gain full employment with one of the leading financial institutions in the UAE.



مؤسسة عبد الله
الغريير للتعليم
Abdulla Al Ghurair
Foundation for Education



**CULTIVATING
EMIRATI TALENT.
SHAPING
FUTURE GLOBAL
LEADERS.**



Mashreq partners with Abdulla Al Ghurair Foundation for Education.

Dear Colleagues,

The Emirati youth. Brimming with confidence. Simmering with ambition. Ready to lead from the front and become global leaders. And giving wings to their dreams is Mashreq and Abdulla Al Ghurair Foundation for Education.

Mashreq has partnered with Abdulla Al Ghurair Foundation for Education to equip the young Emiratis with information, knowledge, insights and tools needed to become dynamic global leaders in the ever evolving economic landscape.

Imparting Knowledge. Creating global leaders. Together.

Figure 17: Partnership with Al Ghurair Foundation of Education

11 Our Environmental Stewardship

As a prominent financial institution, we acknowledge our role and responsibility in encouraging economic progress while protecting the ecosystem and its valuable resources. In keeping with this, we have made a strong effort to adopt environmentally responsible practices and regulations across our value chain. As we continue to expand our environmental approach, we hope to be at the forefront of the net zero transition.

11.1 Energy Management

Trends show that the demand for energy is constantly rising in the UAE. However, meeting this demand through the combustion of fossil fuels contributes to human-induced climate change. Addressing this challenge is a priority for us at Mashreq. We periodically track and evaluate our internal energy use.

We also implemented energy efficiency initiatives, such as replacing three of our old chillers. Our recent investments in air-cooled twin VSD screw chillers helped us to save energy by managing on-demand load operation.

We implemented Smart Aisle technology (by Emerson) at our Data Centre for containment cooling which reduces 15-20% of electricity savings and chill waste consumption. This also helped us to reduce our GHG emissions by approximately 12%.

11.1.1 Energy Consumption

Table 14: Energy Consumption

Component	Unit	2022
Electricity consumption	kWh	12,605,596
LPG consumption	m ³	8,149
Diesel consumption	Litres	3,061

11.1.2 Energy Consumption in GJ

Table 15: Energy Consumption in GJ

Component	2022
Electricity consumption	45,380.15
LPG consumption	303.9
Diesel consumption	125.86
Total Energy consumption	45,809.91

11.1.3 Energy Mix

We currently do not have renewable energy in our mix and our energy consumption is from electricity providers, LPG, and Diesel.

Table 16: Energy Mix

Energy Mix of 2022	Percentages (Basis of GJ)
Electricity	99.1%
Liquified Petroleum Gas (LPG)	0.6%
High-Speed Diesel (HSD)	0.3%
Total	100%

The energy intensity ratio refers to the internal consumption of energy, as is shown below.

Table 17: Energy Intensity

Component	Unit	2022
Total energy consumption	GJ	45,809.91
Total workforce	Per employee	2,498
Energy intensity	GJ/employee	18.34

Mashreq is in the process of setting up a tracking mechanism for energy consumption for effective data management. We now plan to further enhance the sustainability of infrastructure and promote the development of new products that are climate-informed and resilient. We also aim to collaborate more with industry leaders and business units across the organization to kickstart our role in financing renewable energy technologies.

11.2 Greenhouse Gas Emissions

Large organizations play a crucial role in tackling climate change related issues, particularly greenhouse gas emissions. Hence, these issues have continued to dominate the sustainability agenda of organizations globally. At Mashreq, we strive to establish ourselves as leaders in environmental sustainability and are eager to play an active role in the transition to a green economy. We see the evolving expectations of stakeholders as an opportunity to showcase our leadership in developing business solutions that reduce the adverse environmental impact of our operations. Therefore, we focus on factoring climate-related risks and opportunities into our strategies, thereby laying the groundwork for enhanced climate resilience and risk mitigation.

In measuring our greenhouse gas emissions, we identified our primary sources as paper, water, and energy consumption. Therefore, these elements formed the base of our GHG management strategy. To further demonstrate our commitment to reducing our GHG footprint, we constructed our new headquarters in line with green building specifications and standards. The infrastructure incorporates various energy and sustainability measures, allowing us to minimize our consumption of natural

resources. Moreover, 80% of our buildings comply with the UAE Building Management System for energy efficiency. Our approach highlights not only our efforts to reduce our internal footprint, but also to support the larger goal of pollution-free and sustainable development in the UAE. Mashreq Global Headquarters is now LEED Gold certified by US Green Building Council for its remarkable efforts towards sustainability and protecting the environment. The Mashreq Global Headquarters is now the only building headquarter within the financial sector in the region to secure such a coveted recognition thereby reinforcing its pledge to ESG standards.

As we move forward, we continue to increase our efforts to reduce, offset, and report our scope 1, 2, and 3 (partial) emissions from our facilities.

Scope 1 includes LPG & Diesel.

Scope 2 includes Electricity consumption & chilled water for cooling (District cooling)

Scope 3 includes Water, Waste (Paper & carton, Plastic waste & General waste). Scope 3 reporting has only partial data available, and efforts will be made to collect relevant data for most of the applicable scope 3 emissions in the coming years.

Table 18: GHG Emission

GHG Emissions	Unit	2022
Scope 1	tCO ₂ e	52.13
Scope 2	tCO ₂ e	13,313.36
Scope 3	tCO ₂ e	113.73
Total GHG Emissions	tCO₂e	13,479.21

GHG emissions intensity (scope 1+2)

Table 19: GHG Emissions Intensity

	Unit	2022
Total emissions (Scope 1+2)	tCO ₂ e	13,365.49
Total workforce	Per employee	2,498
Emissions intensity	tCO₂e/m²	5.35

11.3 Water Management

Water is a vital component of economic development. However, widespread water scarcity is driving social, economic, and political concerns worldwide. Shortage of freshwater in the UAE highlight the urgency to invest in water security management as the nation relies on costly, energy-intensive desalination plants. Although Mashreq's water consumption is minimal, we recognize that it our duty to practice responsible water management.

At the bank, we work towards this by periodically measuring and monitoring our water consumption across activities. Our water management strategy was developed by identifying our primary sources of consumption, namely employee usage, use for cleaning purposes, and landscaping. In response to this, we introduced several measures, including fitting flow reducers to water outlets, collecting, and reusing the water whenever storage tanks are emptied for irrigation purposes, replacing our landscaped areas with artificial turfs, and replacing the traditional drinking water dispensing machines with 'tap and purify water at source' systems. All our water consumption is from desalinated seawater. We are also looking at options to set up a system for reusing water.

	Unit	2022
Total water consumption	Imperial Gallons	7,684,759.6

11.4 Waste Management

With global waste generation on a continuous rise, organizations hold a key responsibility in addressing the crisis through effective waste management. We recognize that this requires responsible management of natural resources and materials to minimize negative externalities. We have therefore integrated waste reduction in our environmental strategy. Our approach is based on a combination of initiatives that focus on source reduction, reuse, composting, and recycling.

In our business, paper constitutes a large proportion of total waste generation. This can be attributed to the need to maintain important financial documents as hard copies. In response to this, we launched several initiatives such as paperless invoices, internal document processing, and setting up of paper recycling consoles across offices in partnership with Shred-it, an on-site paper destruction and recycling service. Coupled, these initiatives enabled significant, year -on-year reduction in total paper consumption and recycling across the organization. We also recognize the potential influence of our customers' behaviors on our environmental performance, and therefore encourage our customers to sign up for online services. This has been further supported through the introduction of E-statements.

Moreover, we closely monitor both waste generation and disposal across different streams, including food, bottles, cans, and general waste. This is made possible through our contracts with leading facilities and waste management experts in the UAE, such as Farnek, Union Papermills and Beeah Group.

	Unit	2022
Total waste produced	Metric Tons	276.54

As we move forward, our digitization drive will continue to deliver more effective waste management solutions. As of 2022, we are actively working with the corporate directive towards achieving paperless operations by automating client services, from account opening to account management. Measures are designed to target our direct environmental impact, through an absolute reduction in paper consumption,

as well as indirect impact, through a reduction in carbon footprint associated with paper use. This will simultaneously foster enhanced customer experiences, cost efficiency and improved security.

11.5 Environmental oversight

At Mashreq, the Board of Directors and senior management are committed to creating opportunities that showcase leadership in environmental sustainability. Therefore, this is strongly embedded in our group governance structure. Our senior management integrates sustainability matters into the bank's strategies, planning, and operations, thereby advancing best practices while driving continuous value-creation. The establishment of a Sustainability Working Group in 2021 further strengthened effective oversight and guidance on all sustainability matters, including climate-related commitments, goals, initiatives and progress, risks and opportunities, and impact.

As we progress, we aim to further enhance our approach to sustainability governance through updating our Corporate Environmental Policy, outlining the principles of responsible environmental management across the bank's operations. This will include, but is not limited to, communicating standards to employees and external stakeholders, formulating recycling policies, frameworks for assessing environmental impact, and commitments for continual improvement.

We are pleased to announce that Mashreq has received the coveted ISO 41001:2018 certification from ServeU, attesting that our facilities management systems across Mashreq premises conform to the highest international standards. This certification further underscores Mashreq's commitment to employee well-being and safety, helping us all to Rise Every Day and perform at our best. The scope of the certification includes general cleaning, waste management, hygiene supply, water tank cleaning, data center cleaning, landscaping, water feature maintenance among others.

11.6 Focus Topic 1: Paperless office!

As a digital first bank, we pride ourselves in being leaders when it comes to eco-friendly ways of doing business. This includes doing away with the old ways and embracing digital even more.

As a part of our Sustainability initiatives, we aim to make our Mashreq offices paper-free in the near future. We intend to do so by avoiding the usage of printers across our offices wherever possible and switching to digital processes including transactions that we make in our daily lives.

A paperless office is a workplace that strives to decrease or eliminate the quantity of physical documents that employees store and utilise on the premises. Paperless workplaces make a concerted effort to reduce the quantity of paper they use, generally through digitising their records and procedures and enforcing regulations that limit the use of unnecessary paper.

A paperless office is often known as a 'paper-light' office, because it is sometimes hard to remove the usage of paper completely inside a firm. For Mashreq, as a financial institution, some tasks and processes necessitate the usage of physical documents. We ask all our stakeholders to join us on our mission to make way for a brighter tomorrow for planet Earth.



11.7 Focus Topic 2: Mashreq Global HQ becomes LEED Gold certified.

Mashreq Global Headquarters is now LEED Gold certified by US Green Building Council for its remarkable efforts towards sustainability and protecting the environment. The Mashreq Global Headquarters is now the only building headquarter within the financial sector in the region to secure such a coveted recognition thereby reinforcing its pledge to ESG standards. The accolade recognizes Mashreq's commitment to effective waste management, sustainability, energy and water efficiency & management, innovation, indoor environmental quality and transportation.

LEED rating system is the most widely used green building rating system, which provides a framework for healthy, efficient, carbon and cost-saving green buildings. LEED certification is a globally recognized symbol of sustainability achievement and leadership. LEED certified buildings save money, improve efficiency, lower carbon emissions, and create healthier places for people. They are a critical part of addressing climate change and meeting ESG goals, enhancing resilience, and supporting more equitable communities.

12 Our Sustainability Journey Forward

For Mashreq, being future-ready implies acting sustainably. Our longstanding heritage and years of professional expertise have provided the institution with a unique perspective on the evolving ecosystem of the United Arab Emirates.

We take our global responsibilities seriously and play a significant role in shaping the future by fostering an inclusive and net zero economy. This entrepreneurial spirit is deeply ingrained in our organizational culture.

Thinking and behaving sustainably in an integrated manner helps our corporate goals in a variety of ways, including improved stakeholder interactions, enhanced risk awareness etc. The social impact of our entrepreneurial endeavours serves as another evidence of the quality of our organisation.

Several internationally recognized standards and frameworks give us valuable guidance in this thought and action:

- › With the 2030 Agenda for Sustainable Development, the United Nations has established the basis for global economic progress in harmony with social justice and within the Earth's ecological limits. The specific goals of the Agenda are set out in the Sustainable Development Goals (SDGs).
- › The U.N. Global Compact is the world's biggest and most important initiative for responsible corporate governance. Based on ten universal principles, it pursues the vision of an inclusive and sustainable global economy for the benefit of all people, communities, and markets. As a signatory, we recognize these principles as inalienable rights.

Mashreq's recognises the severity of the global climate crisis and is committed to increasing awareness and involvement within the region. With lives and livelihoods at stake, all communities, stakeholders, world leaders, climate scientists, and communities must work together to address climate change challenges. More innovative financing solutions, grants, and concessions are required to assist developing countries with mitigation and adaptation. Mashreq is now in active conversations with numerous entities that are eager to explore sustainable finance for the first time and is consulting and guiding them. Declaring 2023 as the year of sustainability by the President of UAE His Highness Sheikh Mohamed bin Zayed Al Nahyan will accelerate UAE's journey towards a greener economy and will act as a perfect segue to COP 28 taking place this year in UAE, which we are looking forward to support

As part of our strategy, we have committed to finance & facilitate business of USD 30 billion by 2030 to activities focused on environmental and socially responsible solutions.

With a clear sustainability strategy and focus, we are now well-positioned to drive our sustainability agenda and achieve our ESG goals at a predefined pace.

We are certain that together, we can beat our own records in years to come and continue to make the world a better place. After all, when it comes to helping people, there is no limit. There is only the next mission.

APPENDIX: DFM CONTENT INDEX

Environmental Metrics

Environmental Metrics	Corresponding GRI Standards	Corresponding SDG's	Reference
E1. GHG Emissions	GRI 305: Emissions 2016	SDG 13	Refer Heading 11.2
E2. Emissions Intensity	GRI 305: Emissions 2016	SDG 13	Refer Heading 11.2 Non-GHG emissions are not applicable to us.
E3. Energy Usage	GRI 302: Energy 2016	SDG 12	Refer Heading 11.1.1 & 11.1.2
E4. Energy Intensity	GRI 302: Energy 2016	SDG 12	Refer Heading 11.1.3
E5. Energy Mix	GRI 302: Energy 2016	SDG 7	Refer Heading 11.1.3
E6. Water Usage	GRI 303: Water and Effluents 2018	SDG 6	Refer Heading 11.3
E7. Environmental Operations	GRI 103: Management Approach 2016*	SDG 13	Refer Heading 11.5
E8. Environmental Oversight	GRI 102: General Disclosures 2016		Yes. Our management team oversee and manage climate related risks.
E9. Environmental Oversight			Yes. Our management Team oversees and manage other sustainability issues.
E10. Climate Risk Mitigation			Plans under approval

Social Metrics

Social Metrics	Corresponding GRI Standards	Corresponding SDGs	Reference
S1. CEO Pay Ratio	GRI 102: General Disclosures 2016	SDG 10	Refer Heading 7.1.1
S2. Gender Pay Ratio	GRI 405: Diversity and Equal Opportunity 2016	SDG 5	Refer Heading 9.2
S3 Employee Turnover	GRI 401: Employment 2016	SDG 12	Refer Heading 9.1
S4 Gender Diversity	GRI 102: General Disclosures 2016 GRI 405: Diversity and Equal Opportunity 2016 GRI 405: Diversity and Equal Opportunity 2016	SDG 5	Refer Heading 9.2
S5 Temporary Worker Ratio	GRI 102: General Disclosures 2016		Refer Heading 9.1
S6. Non-Discrimination	GRI 103: Management Approach 2016*	SDG 10	Refer Heading 9.5 Policy in progress.
S7. Injury Rate	GRI 403: Occupational Health and Safety 2018	SDG 3	Refer Heading 9.6
S8. Global Health & Safety	GRI 103: Management Approach 2016*	SDG 3	Yes. We follow an occupational health and global health & safety policy
S9. Child & Forced Labor	GRI 103: Management Approach 2016*	SDG 8	Policy in progress. We do not employ any child & forced labor
S10. Human Rights	GRI 103: Management Approach 2016*	SDG 10	Refer Heading 9.4 Page 39 Supplier engagement in progress
S11. Nationalization		SDG 8	Refer Heading 9.2 No data available for Direct and indirect local job creation
S12. Community Investment		SDG 8	Refer Heading 10

Governance Metrics

Governance Metrics	Corresponding GRI Standards	Corresponding SDG's	Reference
G1. Board Diversity	GRI 405: Diversity and Equal Opportunity 2016	SDG 10	Refer Heading 9.2
G2. Board Independence	GRI 102: General Disclosures 2016		Refer Heading 7.1.1
G3. Incentivized Pay	GRI 102: General Disclosures 2016		No. Currently discussions in progress
G4. Collective Bargaining	GRI 102: General Disclosures 2016	SDG 10	Refer Heading 9.4
G5. Supplier Code of Conduct	GRI 102: General Disclosures 2016 GRI 103: Management Approach 2016*	SDG 12	Yes. 100% of vendors or suppliers required to follow a Code of Conduct.
G6. Ethics & Anti-Corruption	GRI 102: General Disclosures 2016 GRI 103: Management Approach 2016*	SDG 16	Refer Heading 7.2
G7. Data Privacy	GRI 103: Management Approach 2016*		Yes. We follow a Data Privacy policy. Yes. Taken steps to comply with GDPR rules.
G8. Sustainability Reporting			Yes. We publish a sustainability report. Yes. Sustainability data included in our regulatory filings.
G9. Disclosure Practices			Yes. We provide reporting frameworks. Yes. We focus on specific UN Sustainable Development Goals (SDGs). Yes. Our SDG targets and progress report is in process.
G10. External Assurance	GRI 102: General Disclosures 2016 * GRI 103: Management Approach 2016 is to be used in combination with the topic specific Standards		Yes. Our sustainability disclosures assured or validated by a third party

-ends-

Governance Report - 2022
Mashreqbank psc

MASHREQBANK PSC

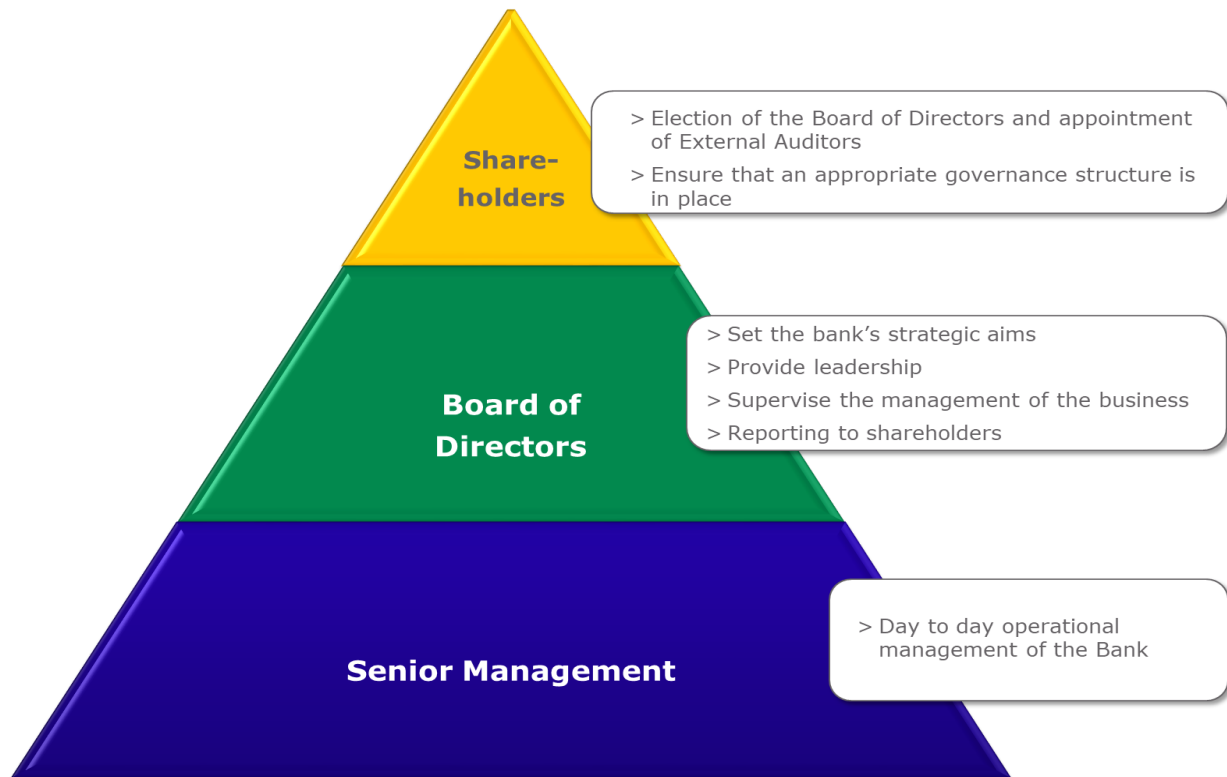
GOVERNANCE REPORT FOR 2022

Mashreqbank psc (“**Mashreq**” or “**Bank**”) has in place corporate governance rules based on industry best practices; is subject to the provisions of Federal Law by Decree No. (32) of 2021 concerning Commercial Companies and Federal Law by Decree No. (14) of 2018 regarding Central Bank and Organization of Financial Institutions and Activities and any amendments thereto (“**Companies Law**”) in addition to regulations of the Central Bank of the United Arab Emirates (“**CB**”); and the UAE Securities and Commodities Authority. The Bank has amended its articles of association in line with the Companies Law and Corporate governance guidelines issued by the Securities & Commodities Authority and the Central Bank.

Corporate governance is globally recognized as an effective mechanism to control and direct an organization. With the transparency it brings, it strengthens the bonds with the stakeholders and improves the decision-making process. Mashreq balances its operational performance and financial success with the controls, transparency and accountability a good corporate governance structure brings. Mashreq is regulated by the Central Bank of the UAE and subject to the applicable laws and regulations of the UAE. For our international locations, including subsidiaries, branch offices, and representative offices we are compliant with the applicable regulations issued by the respective regulators and the applicable laws of the jurisdiction.

Mashreq has adopted a strong corporate governance infrastructure with clear roles and responsibilities articulated at different levels. Mashreq is operated through the structure and mechanism adopted in the corporate governance system. The Board of Directors (the “**Board**”) is responsible for the corporate governance of the Bank. The shareholders’ role in corporate governance includes, but is not limited to, election of the Board, selection of External Auditors and ensuring that an appropriate governance structure is in place. The responsibility of the Board includes, setting the Bank’s strategic aims, providing the leadership to put them into effect, supervising the management of the business and reporting to shareholders on their stewardship. The Board is also responsible for protecting the rights and interests of the minority shareholders of the Bank. The Board’s actions are subject to the UAE laws and regulations as well as the Memorandum & Articles of Association of the Bank.

Governance Structure and Roles



The Bank's senior management acts based on clear delegation of authority on administrative, financial and operational matters based on appropriate policies and manuals. The delegation of authority is judiciously provided based on experience, performance, track record and the position of individuals. Any misuse of authority or acts of negligence is highlighted through regular audits and reviews which are escalated up to the Board level depending upon the seriousness of the issue. The Bank's reporting lines are also an important part of its governance structure and support good governance in the following ways:

- The Chief Risk Officer and the Head of Compliance are independent and reports to the Risk Committee of the Board.
- The Head of Internal Audit and the Head of Shariah Audit are independent and reports to the Audit Committee of the Board.
- The Board Secretary is independent and reports to the Board.

Statement of ownership and trading in the company' shares by Board of Directors (Board) members and their spouses and children during 2022:

Name	Position/ Kinship	Owned shares as on 31/12/2022	Total sale	Total purchase
Mr. Ali Rashed Ahmad Lootah	Board Member	229,003	0	0
Mr. Rashed Saif Ahmad Al Ghurair Al Suwaidi	Board Member	1,130	0	0
Mr. Mansoor Abdul Aziz Abdulla Al Ghurair	Son of Chairman	1,543	0	0

1. BOARD FORMATION

Name	Category (executive, non- executive, & independent)	Experiences & qualifications	Period spent as a Board member from the date of his first election	Membership and positions at any other joint- stock companies	Positions in any other important regulatory, government or commercial positions.
H.E. Abdul Aziz Abdulla Al Ghurair	Chairman	30+ years of experience in banking & finance Honors' Degree in Industrial Engineering from the California Polytechnic State University.	Chairman since 2019 and Board member over 25 years.	Chairman, Oman Insurance Company PJSC.	- Chairman - Dubai Chamber of Commerce & Industry. - Chairman - UAE Banks Federation. - Board Member - Emirates Foundation. - Governing Council Member - Global Muslim Philanthropy Fund for Children in partnership with UNICEF and Islamic Development Bank. - Chairman - Abdul Aziz Al Ghurair Refugee Education Fund. - Chairman - Masafi LLC - Chairman of Abdullah Al Ghurair Education Foundation. - Chairman of Abdul Aziz Al Ghurair

					Refugee Education Fund • Emeritus Chairman and Board member of Family Business Council-Gulf. • Vice Chairman - Al Ghurair Holding Limited. • Vice Chairman - Al Ghurair Investment Co. LLC.
Mr. Ali Rashed Ahmad Lootah	Non-Executive/ Vice Chairman	Finance & Real Estate. Civil engineering graduate from Clarkson University in the United States	Board member of Mashreq since 1996	• Board Member, Dubai World. • Vice Chairman, Oman Insurance Co. • Chairman, Osool Finance Company PJSC. • Vice Chairman, Mashreq Al Islami Finance Company PJSC.	UAE Civil Engineers Society - Member
Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	Independent Non-Executive Director	40 years of experience in the oil & gas industry. B.Sc. degree in petroleum and natural gas engineering from the Pennsylvania State University, USA	Board member of Mashreq since 2013	• Vice Chairman of Dana Gas PJSC. • Board Member, Oman Insurance Co. PJSC.	• Board Member - Al Ghurair Holding Ltd. • Board Member - Emirates General Petroleum Corporation (Emarat). • Board Member – Gulf Marine
Mr. Rashed Saif Ahmad Al Ghurair Al Suwaidi	Non-Executive Director		Board member of Mashreq Bank since 2013	National Cement Company PJSC - Chairman	• Taghleef Industries (LLC) - Chairman • Al Jazeera Petrochemicals - Managing Director

					• The Initial Badger - Member of the Board of Directors • Saif Al Ghurair Investment - Member of the Board of Directors • Al Ghurair Iron and Steel AGIS - Member of the Board of Directors • Gulf Clouds (for aluminum) GulEx - Member of the Board of Directors • Taweelah Aluminum Company, TALEX - Member of the Board of Directors • Arab Packaging Company - Member of the Board of Directors • Atheer Real Estate Company - Member of the Board of Directors
Mr. John Gregory Iossifidis	Independent	Over 35 years of experience in banking and financial sector. BEC (Accounting) 1984 from Monash University, Australia MBA (1992) from Monash University, Australia Diploma in Corporate Governance (2022) from Corporate	Board member of Mashreq since 2021	Hellenic Bank Public Company Ltd in Cyprus	• Al Ghurair Investment LLC - Chief Executive Officer • Australian Institute of Company Directors - (Member 2019 to Present) • Australian Business Council - (Member 2015 to Present) • Australian Institute of Bankers - (Fellow 1988 – Present)

		Governance Institute, Ireland			
Mr. Iyad Mazher Saleh Malas	Non-Executive Director	Over 30 years of experience in financial services, investments, real estate, retail, leisure & entertainment. MBA from George Washington University, USA	Board member of Mashreq since 2021	Board Member of National Cement Company PJSC.	• Al Ghurair Group – Chief Executive Officer
Mr. Saeed Saif Ahmed Majid Al Ghurair.	Non-Executive Director	Experience in venture capital, private equity and risk and asset management, product and project management, trading and valuation and mergers and acquisitions. Degree in Mechanical Engineering from Engineering School of Northeastern, Boston, USA. Certificate in Finance - London Business School	Board member of Mashreq since 2021	NIL	• Director - Dubai Chamber of Commerce & Industry. • CEO - Al Ghurair Commodities • Director – Saif Al Ghurair Group • Director - Al Ghurair Group LLC. • Director - Gulf Extrusions

*Above stated Board members were by the AGM held on 19th April 2021.

The Board in addition to having a wealth of experience, receives on a regular basis training to ensure they remain updated with new developments in the banking industry. The Board had training on compliance in 2022, and upcoming trainings planned in 2023 includes in depth sessions on digitization and cyber security.

In the current Board appointed by the AGM held on 19/04/2021, there is no female representation as no female candidate was nominated in the Board election of 2021. This shall be addressed in the forthcoming Board election in 2024. Mashreq acknowledges the importance of female representation, encourages gender diversity and support equal opportunities in the Board. The Board shall ensure at least 20% of candidates for consideration in future elections are female.

Performance Evaluation

In 2022, the Bank has appointed an Independent External consultant, Nasdaq to independently evaluate the performance of the Board, Board Committees and Individual Directors. Results of the evaluation will be assessed and presented to the Board Nomination Committee for reviewing and monitoring the action list arising from the results and updating the Board with the action plan.

Board Remuneration

The total remunerations paid to the Board members for the year 2021 were as follows:

- a) Chairman - AED 550,000.00
- b) Board Members each - AED 450,000.00

The total remunerations of the Board members, which are proposed for 2022, and will be presented in the annual general assembly meeting for approval.

The proposed remuneration of the Board members which will be presented in the AGM for approval is:

- c) Chairman - AED 550,000.00
- d) Board Members each - AED 450,000.00

Details of the allowances for attending sessions of the committees emanating from the Board, which were received by the Board members for 2022 fiscal year:

No allowance is paid to Board members for attending either the Board or Committee meetings.

Number of the Board meetings held during 2022 fiscal year along with their convening dates, personal attendance times of all members, and members attending by proxy.

Sr. No.	Date of meeting	Number of attendees	Number of attendees by proxy	Names of absent members
1.	31 st January 2022	6	1	Mr. Ali Rashed Ahmad Lootah
2.	27 th April 2022	6	1	Mr. John Gregory Iossifidis
3.	20 th July 2022	7	NIL	NIL
4.	26 th September 2022	6	1	Mr. Ali Rashed Ahmad Lootah
5.	25 th October 2022	6	1	H.E. Abdul Aziz Abdulla Al Ghurair
6.	14 th December 2022	7	NIL	NIL

Sr. No.	Name of Board Member	Board Meetings held in 2022					
		Meeting 1	Meeting 2	Meeting 3	Meeting 4	Meeting 5	Meeting 6
		31 Jan 22	27 Apr'22	20 Jul'22	26 Sep'22	25 Oct'22	14 th Dec'22
1.	H.E. Abdul Aziz Abdulla Al Ghurair	√	√	√	√	A	√
2.	Mr. Ali Rashed Ahmad Lootah	A	√	√	A	√	√
3.	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	√	√	√	√	√	√
4.	Mr. Rashed Saif Ahmad Al Ghurair Al Suwaidi	√	√	√	√	√	√
5.	Mr. John Gregory Iossifidis	√	A	√	√	√	√
6.	Mr. Iyad Mazher Saleh Malas	√	√	√	√	√	√
7.	Mr. Saeed Saif Ahmed Majid Al Ghurair	√	√	√	√	√	√

Board resolutions passed during 2022:

Board Resolution dated 7th November to approve appointment of Nasdaq Corporate Solutions limited to perform the conduct the Bank's independent Board evaluation and assessment for year 2022.

Since the above resolutions are not relating to major matters that affect the share price of the Company and it is within the scope of the Companies objects, they were not subjected to disclosure of DFM website.

Statement of Board duties and powers exercised by Board members or the executive management members during 2022 based on an authorization from the Board:

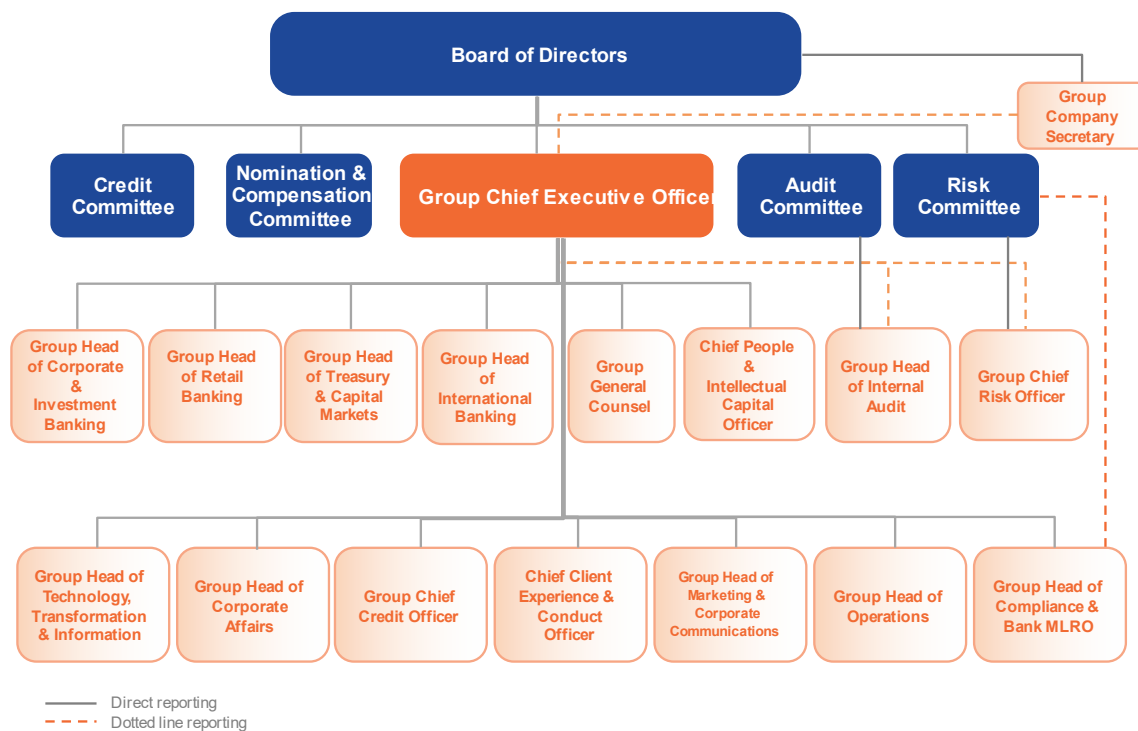
Name of the authorized person	Power of authorization	Duration of authorization
Mr. Ahmed Abdelaal Group Chief Executive Officer (CEO)	To make changes to Annual plan within the presented limits and this approval to be kept on a rolling basis for each year plan; and to take all necessary procedures for the incorporation of the newly incorporated entity Idfaa Payment Services.	Unlimited duration unless cancelled
Mrs. Shaima Al Obeidli	To perform the required disclosures with the Dubai Financial Market and the UAE Securities & Commodities Authority.	Unlimited duration unless cancelled
(Any two signatories) Mr. Ahmed Mohamed Abdelaal Mohamed Khalafalla, Chief Executive Officer; Mr. Ali Raza Khan, Head of Corporate Affairs; Mr. Hammad Naqvi, Head of Treasury and Capital Markets; Mr. Tarek Ahmed El Nahas, Head of International Banking Group; and Mr. Joel Van Dusen, Head of Corporate & Investment Banking Group.	to sign any documentation and take any other action on behalf of the Bank, including in connection with the issuance of the Capital Securities, which includes, for the avoidance of doubt, any documentation or actions required to enter into, list or issue the Capital Securities, or, as the case may be, publish or distribute any offering materials or otherwise in respect of the Capital Securities	Unlimited duration unless cancelled
Tarek Ahmed El Nahas and Mr. Mohammad Ezzat Agwah jointly.	to execute all necessary deeds, documents, affidavits, forms, returns, letters whatsoever necessary for the purpose of establishing, registering and commencing Banking Business in Oman	Unlimited duration unless cancelled

Statement of the details of transactions made with the related parties (Stakeholders) during 2022:

	Nature of relationship	Type of transaction	Value of transaction
1	Major Shareholders	Loan and advances	3,216,692
		Letter of credit and guarantees	1,449,059
		Deposits / Financial instruments under lien	1,198,230
2	Directors	Loan and advances	115,241
		Letter of credit and guarantees	251
		Deposits / Financial instruments under lien	336,931

Note:- All amount in AED 000

Mashreq Organization Structure



EXECUTIVE MANAGEMENT:

Position	Appointment date
Group Chief Executive Officer	6-Nov-17
Group Head of Corporate & Investment Banking	1-Mar-20
Group Head of Retail Banking	12-Jul-21
Group Head of Corporate Affairs	22-Jul-80
Group Head of International Banking	19-Jan-20
Group Head of Treasury and Capital Markets	11-May-96
Group Chief Credit Officer	5-Mar-19
Group Head of Internal Audit	16-Oct-04
Group Chief Risk Officer	24-Mar-19
Group Head of Marketing & Corporate Communications	22-Aug-22
Chief People & Intellectual Capital Officer	17-Oct-22
Chief Client Experience & Conduct Officer	18-Feb-18
Group General Counsel	21-Mar-21
Group Head of Operations	18-Mar-20
Group Head of Compliance & Bank MLRO	28-Jun-20

MANAGEMENT'S REMUNERATION:

The total salaries and benefits paid in 2022 to the senior management of the Bank is **AED 44,267,885.**

EXTERNAL AUDITOR:

A. External auditors overview	
PriceWaterhouseCoopers ("PwC") has operated in the Middle East region for more than 40 years. Collectively, their Middle East network employs more than 7,000 people in the region including over 300 partners working from 23 offices (in 22 locations) across 12 countries: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates.	
B. Statement of fees and costs for 2021	
Name of the external auditor	PricewaterhouseCoopers (Dubai Branch)
Number of years served as external auditor	5 years
Name of the external audit partner	Jigesh Shah
Number of years audit partner has served in this role	1 years
Total audit fees for 2022	AED 855,750
Fees and costs of other services other than auditing the financial statements for 2022	AED 2,321,845
Details and nature of other services provided by the external auditor	1. Long form report for overseas branches of the Bank as required by Central Bank of UAE

	2. Issuance of Tier 1/Tier 2 Capital and EMTN 3. Agreed upon procedures in respect of the XBRL filing requirements
C. Auditor reservations	
The auditor's report did not provide any qualified opinion regarding the interim or annual financial statements for the year 2022	

BOARD AUDIT COMMITTEE:

The Board has established Board Audit Committee to assist the Board in carrying out its functions. The Board Audit Committee is responsible for reviewing the financial reporting process as well as oversight of the activities and effectiveness of the Bank's internal and external auditors while assisting the Board in fulfilling its oversight responsibilities including the following:

- to review the financial reporting process and establishment of significant accounting policies and practices;
- make recommendations to the Board, for it to be put to the shareholders for their approval at General Assembly Meeting, in relation to the appointment, re-appointment and removal of the external auditor and to approve the remuneration and Terms of Engagement of the external auditor;
- to certify the external auditor's qualifications and independence;
- to review and approve a comprehensive internal audit plan and quarterly report prepared by the internal audit team;
- to ensure that the internal audit function independently evaluates - compliance with laws, regulations, standards, and the instructions issued by the UAE Central Bank.

The Chairman of the Board Audit Committee hereby acknowledge his responsibility for the Committee system at the Company, review of its work mechanism and ensuring its effectiveness.

Board Audit Committee Membership:

Name	Position	Competencies	Tasks assigned
John Gregory Iossifidis	Chairman	MBA from Monash University, Australia Over 35 years of experience in banking and financial sector.	General task of the Committee
Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	Member	B.Sc. degree in petroleum and natural gas engineering from the Pennsylvania State University, USA	General task of the Committee

		40 years of experience in the oil & gas industry.	
Iyad Mazher Saleh Malas	Member	MBA from George Washington University, USA Over 30 years of experience in financial services, investments, real estate, retail, leisure & entertainment.	General task of the Committee

Board Audit Committee meetings held during year 2022:

Name of BAC Member	BAC Meetings held in 2022			
	Meeting 1	Meeting 2	Meeting 3	Meeting 4
	31 st Jan'22	26 th Apr'22	19 th Jul'22	25 th Oct'22
Mr. John Gregory Iossifidis	√	√	√	√
Mr. Iyad Mazher Saleh Malas	√	√	√	√
Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	√	√	√	√

BOARD NOMINATION AND COMPENSATION COMMITTEE:

The Board have constituted a Board Nomination and Compensation Committee in accordance with the laws, regulations and standards issued by the UAE Central Bank. The Board Nomination and Compensation Committee is responsible to ensure that there is an adequate composition of the Board, Senior Management and staff for the ongoing functioning of the Bank operations; to have plans in place for orderly succession to both the Board and Senior Management positions; to evaluate the performance on the Board; and also to satisfy itself that the remuneration framework is in line with the risk appetite, business strategy, culture and values, and long-term interests of the Bank as well as in compliance with the laws and regulations issued by the UAE Central Bank.

The Chairman of the Board Nomination and Compensation Committee hereby acknowledge his responsibility for the Committee system at the Company, review of its work mechanism and ensuring its effectiveness.

The Board Nomination and Compensation Committee membership:

Name	Position	Competences	Tasks assigned
Mr. Saeed Saif Ahmed Majid Al Ghurair	Chairman	Degree in Mechanical Engineering from Northeastern, Boston, USA. Certificate in Finance - London Business School. Experience in venture capital, private equity and risk and asset	General task of the Committee

		management, product and project management, trading and valuation and mergers and acquisitions.	
Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	Member	B.Sc. degree in petroleum and natural gas engineering from the Pennsylvania State University, USA 40 years of experience in the oil & gas industry.	General task of the Committee
Mr. Ali Rashed Ahmad Lootah	Member	Civil engineering graduate from Clarkson University in the United States Over 30 years of experience in Finance & Real Estate.	General task of the Committee

Board Nomination Compensation Committee meetings held during year 2022:

	Name of BNCC Member	BNCC Meetings held in 2022	
		Meeting 1	Meeting 2
		31 st Jan'22	12 th Dec'22
1.	Mr. Saeed Saif Ahmed Majid Al Ghurair	√	√
2.	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	√	√
3.	Mr. Ali Rashed Ahmad Lootah	A	A

THE SUPERVISION AND FOLLOW-UP COMMITTEE OF INSIDERS' TRANSACTIONS.

Mashreq has developed an 'Insider Trading Policy' intended to prevent the improper conduct by insiders and to prevent insider trading. The policy applies globally regardless of the country in which the insider is employed/based.

OTHER COMMITTEE(S) APPROVED BY THE BOARD.

BOARD RISK COMMITTEE – (“BRC”)

The Board has constituted the Board Risk Committee to assist the Board in carrying out its functions. The Board Risk Committee is responsible for of excising oversight of key risk and compliance and making appropriate recommendations to the Board on the compliance status of the group and on the risk appetite

framework as recommended by the Enterprise Risk Committee (ERC). Responsibilities of the Committee include (but are not limited to) the following:

- to review and approve, on behalf of the Board, the Bank's risk appetite statement and in doing so, satisfy itself that the risk appetite is aligned to the Group's strategy;
 - to make recommendations as it may deem necessary on any risk management related matters including but not limited to Bank's risk appetite;
 - to safeguard the independence of, and oversee the performance of, risk functions; and
 - to approve stress test framework, ICAAP and other policies and procedures as recommended by ERC.
- The Chairman of the Board Risk Committee hereby acknowledge his responsibility for the Committee system at the Company, review of its work mechanism and ensuring its effectiveness.

The Board Risk Committee membership:

Name	Position	Competences	Tasks assigned
Mr. Ali Rashed Ahmad Lootah*	Chairman until 25 th October'22	Civil engineering graduate from Clarkson University in the United States Over 30 years of experience in Finance & Real Estate.	General task of the Committee
Mr. John Gregory Iossifidis	Member	MBA from Monash University, Australia Over 35 years of experience in banking and financial sector.	General task of the Committee
Mr. Rashed Saif Ahmad Al Ghurair Al Suwaidi	Member	Board member of Mashreq Bank since 2013; National Cement Company PJSC – Chairman and holding key positions in many reputed commercial organizations.	General task of the Committee
Mr. Rashed Saif Saeed Al Jarwan Al Shamsi*	Chairman effective 25 th Oct'22 onwards	B.Sc. degree in petroleum and natural gas engineering from the Pennsylvania State University, USA 40 years of experience in the oil & gas industry.	General task of the Committee

* In the Board meeting 5/2022 dated 25th October, the Board approved the new composition of the Committee by replacing the Chairman from Mr. Lootah to Mr. Al Jarwan due to independency requirements of the Committee.

The Board Risk Committee meetings held during year 2022:

	Name of BRC Member	BRC Meetings held in 2022			
		Meeting 1	Meeting 2	Meeting 3	Meeting 4
		28 th Mar'22	25 th Jul'22	2 nd Nov'22	12 th Dec '22
	Mr. Ali Rashed Ahmad Lootah	√	√	N/A	N/A
	Mr. John Gregory Iossifidis	√	√	√	√
	Mr. Rashed Saif Ahmad Al Ghurair Al Suwaidi	√	√	√	√
	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi*	N/A	N/A	√	√

* N/A: not a member at the time of the meeting. In the Board meeting 5/2022 dated 25th October, the Board approved the new composition of the Committee by replacing the Chairman from Mr. Lootah to Mr. Al Jarwan due to independency requirements of the Committee.

BOARD CREDIT COMMITTEE – (“BCC”)

The Board has constituted the Board Credit Committee to assist the Board in carrying out its functions. The Board Credit Committee is responsible for of excising oversight of the credit approvals of the Bank and making appropriate credit decisions and/or recommendations to the Board based on the Bank’s credit risk appetite. Responsibilities of the Committee include (but are not limited to) the following:

- approval of all credit proposals which exceed the Chairman’s delegated authority;
- review of the credit risk portfolio of the Bank;
- providing guidance to the Credit Risk Management Team in terms of forward-looking view of the market; and
- any other credit or credit risk related matter as deemed appropriate.

The Chairman of the Board Risk Committee hereby acknowledge his responsibility for the Committee system at the Company, review of its work mechanism and ensuring its effectiveness.

The Board Credit Committee membership:

Name	Position	Competences	Tasks assigned
Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	Chairman till 25 th Oct'22	B.Sc. degree in petroleum and natural gas engineering from the Pennsylvania State University, USA 40 years of experience in the oil & gas industry.	General task of the Committee

Mr. Ali Rashed Ahmad Lootah	Chairman effective 25 th Oct'22 onwards	Civil engineering graduate from Clarkson University in the United States Over 30 years of experience in Finance & Real Estate.	General task of the Committee
Iyad Mazher Saleh Malas	Member	MBA from George Washington University, USA Over 30 years of experience in financial services, investments, real estate, retail, leisure & entertainment.	General task of the Committee

The Board Credit Committee meetings held during year 2022:

Name of BCC Member	BCC Meetings held in 2022	
	Meeting 1	Meeting 2
	12 th Jan'22	4 th Jul'22
Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	√	√
Mr. Ali Rashed Ahmad Lootah	√	√
Iyad Mazher Saleh Malas	√	√

INTERNAL CONTROL SYSTEM:

The Board of Directors acknowledges its responsibility for the Bank's internal oversight system and for checking the same and ensuring its effectiveness through the Internal Audit Group.

Internal Audit Group

Name of Head of Internal Audit Group: Mr. Nasser A. Paracha, Group Head of Internal Audit, is responsible for overseeing the Internal Audit activities. He has been with the Bank since 2004 and appointed as Group Head of Internal Audit since 2019. He holds a BSc from the University of Leeds and a Certificate in Corporate Governance from INSEAD.

Compliance

Name of the Compliance Officer: Mr. Scott Ramsay. Mr. Scott holds a Master's Degree in Law from Victoria University of Wellington and was admitted as a Barrister and Solicitor of the High Court of New Zealand. Date of joining Mashreq: 29th June 2020.

Internal Audit Group provides independent assurance to shareholders, stakeholders and regulators, with some scope for limited consultancy as and when required (without any impact on independence). Board Audit Committee (BAC) is the ultimate body in the Bank where audit results are presented. The issues raised in

the audits are recorded in a system, tracked for closure and reported to the management and BAC regularly. In 2022, no issue with major impact has been detected.

Number of reports issued by the Internal Control Department to the Company's Board of Directors.

Internal Audit issued 67 reports during the year 2022. The reports are provided to the Board Audit Committee and the details of the relevant issues are discussed in the quarterly BAC meetings. The reports are available upon request.

Details of the violations committed during 2022

During 2022, Mashreq has witnessed a few violations due to non-compliance of regulatory obligations in UAE and Overseas branches. This resulted in two minor penalties and three warnings in London, Qatar and Hong Kong, Egypt, New York respectively. All necessary action has been taken into consideration for future compliance and details are available upon request.

Statement of the cash and in-kind contributions made by the Company during 2022 in developing the local community and preserving the environment.

Project name	CAT	Cash contribution
1 billion campaign – Dubai care	CSR	Mashreq: AED 1 million Clients: AED 13,000/-
Pakistan Flood campaign		<i>Managed by business segment</i> Clients: AED 92,000/-
Ramadan camping 2022– Musaharaty: Donation vis our mobile app to Dubai care		Mashreq: AED 65,000/-
Breast cancer paddle campaign 2021 collaboration with our partner Just paddle		No Cash
Ashriqi committee internal engagement activities on women empowerment 2021-2022		No Cash
Paperless campaign 2021 (internal campaign)	ESG	No Cash
Participation in Cop27		Mashreq: AED 1,837,500/-

GENERAL INFORMATION:

Statement of the company share price in the market the end of each month during the fiscal year 2022.

	January	February	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
High	79.5	76	78.95	78.95	76.5	80	81	85	115	103.5	103	97.5
Low	76	76	62.1	67.5	73.5	76.5	80	75	73	103	97.5	97.5
Close	76	76	78.95	74	76.5	80	80	81	115	103	97.5	97.5

Statement of the Company comparative performance with the general market index and sector index to which the Company belongs during 2022.

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Mashreq Share Price	76	76	78.95	74	76.5	80	80	81	115	103	97.5	97.5
% Growth		0.00%	3.88%	-6.27%	3.38%	4.58%	0.00%	1.25%	41.98%	-10.43%	-5.34%	0.00%
DFM Index	3,203.08	3,354.64	3,526.60	3,719.63	3,347.24	3,223.29	3,337.96	3,443.11	3,339.15	3,331.76	3,323.96	3,336.07
% Growth		4.73%	5.13%	5.47%	-10.01%	-3.70%	3.56%	3.15%	-3.02%	-0.22%	-0.23%	0.36%

Statement of the shareholders ownership distribution as on 31/12/2022

Shareholder classification	Percentage of owned shares			
	Individuals	Companies	Government	Total
Local	3.77	94.01		97.78
Arab	0.02	0.01		0.03
Foreign	0.77	1.42		2.19
Total	4.56	95.44		100.00

Note: Arab countries include Kuwait, Bahrain, Saudi Arabia, Oman, Qatar, Lebanon, Syria and Egypt.

Statement of shareholders owning 5% or more of the Company's capital as on 31/12/2022:

	Name	Number of owned shares	Percentage of owned shares of the company's capital
1	Saif Al Ghurair Investment Group Company LLC	79,237,557	39.5
2	Abdulla Ahmed Al Ghurair Investment Co	62,389,304	31.1
3	Massar Capital	25,574,961	12.7

Statement of how shareholders are distributed according to the volume of property as on 31/12/2022 :

	Share(s) ownership	Number of shareholders	Number of owned shares	Percentage of owned shares of the capital
1	Less than 50,000	100	782225	0.3898
2	From 50,000 to less than 500,000	31	6619794	3.2996
3	From 500,000 to less than 5,000,000	7	11679294	5.822
4	More than 5,000,000	6	181528517	90.4883

Statement of measures taken regarding the controls of investor relationships and an indication of the following: -

Name of the investor relationships officer: **Ali Zaigham Agha**

Contact details of the investor relationships (e-mail- phone- mobile- fax):

aliagha@mashreq.com - +971554348679 - +97142077543

The link of investor relationships page on the Company's website:

<https://www.mashreqbank.com/en/uae/about-us/Investors/shareholder-toolkit/shareholder-structure>

Statement of the special resolutions presented in the General assembly held during 2022:

Special resolution approved by the AGM held on 20/4/2022 with regards to the issuance of conventional bonds up to an amount of U.S \$ 1,000,000,000 for regulatory capital purposes for the purposes of strengthening the Group's capital adequacy ratio (the capital securities shall include the terms and conditions required by the UAE Central Bank, including, in relation to additional tier 1 capital instruments, the following features: subordination; coupon non-payment events; and non-viability and write-down provisions).

Name of the Rapporteur of the Board meetings and her appointment date.

Mrs. Shaima Al Obeidli, the Group Company Secretary of the Bank was appointed on 17th May 2022 pursuant to the applicable provisions/articles stated in the Corporate Governance Regulations and Standards 83/2019 issued by the Central Bank, Securities and Commodities Authorities Board Resolution No. (03/R.M) of 2020 concerning adopting the Corporate Governance Guide for Public Joint-Stock Companies, Commercial Companies Law 2015 and its amendment thereto, and the constitutional documents of the Bank.

Detailed statement of major events and important disclosures that the Company encountered during 2022:

None

Statement of the transactions that the company made with the related parties during 2022, which worth 5% or more of the company's capital.

Ser.	Nature of relationship	Type of transaction	Value of transaction
1	Major Shareholder	Loan and advances	3,216,692
		Letter of credit and guarantees	1,449,059
		Deposits / Financial instruments under lien	1,198,230

Note: All amount in AED 000

Statement of Emiratization percentage in the Company at the end of 2019, 2020, 2021, and 2022 (workers are excluded for companies working in the field of contracting).

Emiratization % age doesn't apply to the Bank, however, below is the achieved points as per the Central Bank's pointing system. In 2022, the Bank has overperformed the new recruitment target (for fresh hires) for which our target was 60 but we clocked in at 117 . Also, three of the Bank's Executive Management Committee members are UAE Nationals.

2019	2020	2021	2022
1,598	1,623	1817.5	1856

Statement of innovative projects and initiatives carried out by the company or being developed during 2022.

Digital Initiatives:

Wholesale Initiatives

The Wholesale studio has been revamped in November 2022 to deliver digital capabilities, under the following strategic pillars:

Digital Initiatives	Details
Digital Coverage & Business Enablement	- Automated Real Time Call report reporting on PULSE - Business Opportunity & Client Analytics on Call Reporting - FI RM, FI Client view and Limit Structure Enablement on PULSE
Digital Credit	Launched the RM Portfolio Overview on PULSE including the RAROC calculator
Digital Acceleration	- Net Product Utilization (NPU) to create insights on how to increase our product coverage with clients and track cross sell opportunities. - Machine Learning curated news based on 3 Themes- Adverse Media, Industry news & Growth - PULSE Geographical expansion to HK, NY and India - Lease Rental Discounting Dashboard on PUSLE- Enabling RMs to have an accurate view of their lease rental discounting portfolio to view occupancy status and DSCR ratio - Introduction of Digital KPIs and Digital Ambassadors
Advanced Analytics	Utilized Advanced Analytics (AA) platform and tools to drive revenue growth by AED 31M
Digital Customer Journeys	- Digital client Onboarding Moving client onboarding to digital platform which helped in improving TAT- 56 signatures to 1 signature - PCIF(Persona CIF) launch to enhance the customer onboarding experience, by leveraging existing customer data - Launched Submission portal for Trade License Renewal resulting in straight through processing and impacting TAT

	• Launched the revised CRRM (Customer Risk Rating Methodology), including International locations • Launched Islamic account on digital journey • End- End KYC Renewal journey for Qatar • 1 signature 1 page account opening form for Wholesale • Automated Trade License updated without the need of customer out reach • Launch of Digital process for KYC updates of FI Clients
Industry Recognition	• EuroMoney 2022: Middle East's Best Digital Bank • Best Bank for Digital Solution in UAE • Global Finance: Most Innovative Digital Bank • World's Best Financial Innovation Lab • Middle East Enterprise AI & Analytics Summit- Middle East Smart Analytics Leader, Best Use of Predictive Analytics • Gartner Eye on Innovation Awards for Financial Services • International Business Magazine: Best Digital Bank in Middle East

HR Initiatives

- Benefits enhancement
 - Standardized the key benefits payout for education and airfare allowance and to be in line with the market
 - Autism, Speech & Hereditary Diseases coverage was included as a standard Medical Insurance offering for all countries
- In line with Mashreq's new operating model, we implemented flexible working model "**Work from Anywhere**" for upto 30 calendar days which can be availed in two different stints of 15 calendar days.
- To celebrate the Long Service milestones, the policy was enhanced to felicitate our employees with Gold Coins, Mashreq branded pens and Apple watch.
- 360 reviews for developing senior leaders through holistic feedback
- Successful launch of the ACE 3 program, with the coverage expanded to cover the GCC
- Launch of the flagship ADGM program for young UAE Nationals through the Mashreq Al Mustaqbal program
- Overachieved the Emiratisation target. 1,856 points versus a Target of 1,632 points 'Operational Target Points' and 117 points versus a Target of 60 points 'Recruitment Target Points'

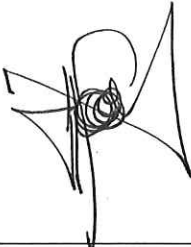
Environmental, Social and Governance (ESG) & Corporate Social Responsibility (CSR Initiatives)

CSR

- 1 billion campaign – Dubai care
- Pakistan Flood campaign
- Ramadan camping 2022– Musaharaty: Donation vis our mobile app to Dubai care
- Breast cancer paddle campaign 2021 collaboration with our partner Just paddle
- Ashriqi committee internal engagement activities on women empowerment 2021-2022

ESG

- Paperless campaign 2021 (internal campaign)
- Participation in Cop27
- Apr 2022: 4E sustainability framework developed and stakeholder engagement exercise was carried out to identify material topics.
- Aug 2022: We become signatory of UNGC.
- During 2022, the business teams continue to build the bank's track record and credentials in Sustainable Finance deals.
- We participated in COP27 in 2022 as an official supporter following the signing of a memorandum of understanding with Egypt's COP Presidency.
- The Mashreq Global Headquarters was LEED Gold certified by the US Green Building Council, becoming the only building headquarter within the financial sector in the region to secure such a coveted recognition.

			
H.E. Abdul-Aziz Abdulla Al Ghurair Chairman of the Board of Directors Date: 30 th January 2023	Mr. John Gregory Iossifidis Chairman, Audit Committee Date: 30 th January 2023	Mr. Saeed Saif Ahmed Al Ghurair , Chairman, Nomination & Compensation Committee Date: 30 th January 2023	Mr. Nasser A. Paracha Group Head of Internal Audit Date: 30 th January 2023

Company Official Seal

**Annual Report of the Internal Shari'ah Supervision Committee of
Mashreq Al Islami (Islamic Window of Mashreqbank PSC)**

Issued on: 27th January 2023

To: Shareholders of Mashreqbank PSC (“the Institution”)

After greetings,

Pursuant to requirements stipulated in the relevant laws, regulations and standards (“the Regulatory Requirements”), the Internal Shari'ah Supervision Committee of the Institution (“ISSC”) presents to you the ISSC's Annual Report regarding Shari'ah compliant businesses and operations of the Institution for the financial year ending on 31 December 2022 (“Financial Year”).

1. Responsibility of the ISSC

In accordance with the Regulatory Requirements and the ISSC's charter, the ISSC's responsibility is stipulated as to:

- a. undertake Shari'ah supervision of all businesses, activities, products, services, contracts, documents and business charters of the Institution; and the Institution's policies, accounting standards, operations and activities in general, memorandum of association, charter, financial statements, allocation of expenditures and costs, and distribution of profits between holders of investment accounts and shareholders (“Institution's Activities”) and issue Shari'ah resolutions in this regard, and
- b. determine Shari'ah parameters necessary for the Institution's Activities, and the Institution's compliance with Islamic Shari'ah within the framework of the rules, principles, and standards set by the Higher Shari'ah Authority (“HSA”) to ascertain compliance of the Institution with Islamic Shari'ah.

The senior management is responsible for compliance of the Institution with Islamic Shari'ah in accordance with the HSA's resolutions, fatwas, and opinions, and the ISSC's resolutions within the framework of the rules, principles, and standards set by the HSA (“Compliance with Islamic Shari'ah”) in all Institution's Activities, and the Board bears the ultimate responsibility in this regard.

2. Shari'ah Standards

In accordance with the HSA's resolution (No. 18/3/2018), and with effect from 01/09/2018, the ISSC has abided by the Shari'ah standards issued by the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) as minimum Shari'ah requirements, in all fatwas, approvals, endorsements and recommendations, relating to the Institution's Activities without exception.

3. Duties Fulfilled by the ISSC During the Financial Year

The ISSC conducted Shari'ah supervision of the Institution's activities by reviewing those activities, and monitoring them through the internal Shari'ah control division and the internal Shari'ah audit division, in accordance with the ISSC's authorities and responsibilities, and pursuant to the Regulatory Requirements in this regard. The ISSC's activities included the following:

- a. Convening 04 meetings during the year 2022.
- b. Issuing fatwas, resolutions and opinions on matters presented to the ISSC in relation to the Institution's Activities.
- c. Monitoring compliance of policies, procedures, business charters, accounting standards, product structures, contracts, documentation, and other documentation submitted by the Institution to the ISSC for approval. Ascertaining the level of compliance of allocation of expenditures and costs, and distribution of profits between investment accounts holders and shareholders with parameters set by the ISSC.
- d. Supervision through the internal Shari'ah controls division and the internal Shari'ah audit division, of the Institution's Activities including supervision of executed transactions and adopted procedures on the basis of random samples selected from executed transactions, and reviewing reports submitted in this regard. Providing guidance to relevant parties in the Institution – to rectify (where rectification was necessary) incidents cited in the reports prepared by the internal Shari'ah control division and the internal Shari'ah audit division – during the year, there were no such instances of non-compliance identified, and hence it was not required to set aside revenue from any transaction during the current year. The ISSC approved to collect an amount from delaying customers due to late payment and then to dispose it towards charitable purposes, and approved the entities eligible for receiving the charity amount.
- e. Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future.
- f. A statement of Zakat amount due per share of the Institution.
- g. Communicating with the Board and its subcommittees, and the senior management of the Institution (as needed) concerning the Institution's compliance with Islamic Shari'ah.

The ISSC sought to obtain all information and interpretations deemed necessary in order to reach a reasonable degree of certainty that the Institution is compliant with Islamic Shari'ah.

4. Independence of the ISSC

The ISSC acknowledges that it has carried out all of its duties independently and with the support and cooperation of the senior management and the Board of the Institution. The ISSC received the required assistance to access all documents and data, and to discuss all amendments and Shari'ah requirements.

5. The ISSC's Opinion on the Shari'ah Compliance Status of the Institution

Premised on information and explanations that were provided to us with the aim of ascertaining compliance with Islamic Shari'ah, the ISSC has concluded with a reasonable level of confidence, that the Institution's Activities are in compliance with Islamic Shari'ah, except for the incidents of non-compliance observed, as highlighted in the relevant reports. The ISSC also provided directions to take appropriate measure in this regard.

The ISSC formed its opinion, as outlined above, exclusively on the basis of information perused by the ISSC during the financial year.

Member's Name	Type of Membership	Signature
Dr. Abdulrahman Alhammadi	Member	
Dr. Mohamed Karrat	Member	
Dr. Ahcene Lahsasna	Executive Member	
Prof. Dr. Mohammad Abdulrahim Sultan Alolama	Deputy Chairman	
Sheikh Abdullah Bin Sulaiman Al Meneea	Chairman	