mashreq المشرق

2021
INTEGRATED REPORT

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mashreq المشرق

BOARD OF DIRECTORS

Chairman

H.E Abdul Aziz Abdulla Al Ghurair

Vice-Chairman

Ali Rashed Ahmad Lootah

Directors

Mr. Rashid Saif Saeed Al Jarwan Al Shamsi
Mr. Rashed Saif Ahmed Al Ghurair Al Suwaidi
Mr. John Gregory Iossifidis
Mr. Iyad Mazhar Saleh Malas
Mr. Saeed Saif Al Ghurair

Chairman's Message

By successfully implementing new digital and operational strategies across the Bank's businesses, we succeeded in securing a robust return to profitability in 2021, defined by significant improvements in operating income, net profit, and credit profile.

By year-end, the Bank's overall position was much-improved, thanks partly to the application of strict cost controls and an impressive increase in customer deposits. These – alongside growth in total assets – reflect the success of a customer-centric strategy defined by the highest levels of service and industry-leading digital solutions.

These achievements are indicative of the Bank's hard-earned position as a market leader in digital banking and as an innovator of platform banking solutions within the wider challenger space.

The core driver of our success has been the creative and enduring contribution that every one of our colleagues made in 2021. Their commitment and ability to innovate in a highly competitive environment has allowed Mashreq to flourish and to provide an exciting suite of digital products for all customer segments. An empowered pool of diverse human capital is – and will continue to be – our most important differentiator.

Complementing the development of skills and careers, we will continue to unleash opportunity by deploying innovative AI and smart analytics. Throughout 2021, these newly adopted technologies have allowed us to develop high-quality feedback systems that enable us to respond rapidly to customer needs while also helping to mitigate risk through compliance and governance protocols.

By responding quickly and understanding what our customers need, we were able to deliver exceptional financial results within the Retail Banking and International Banking Groups in 2021.

I am also pleased that our international locations performed well in 2021, with each Center of Excellence in Egypt, India and Pakistan supported by a growing and increasingly gender-balanced workforce.

The scale and pace of change within the digital economy demand that we continue to focus on what matters most in 2022: delivering exceptional customer experiences through the provision of comprehensive and exciting digital solutions.

We have established a fund to make direct investments into the fintech ecosystem to support this. We will continue to empower our diverse and inclusive workforce by developing digital and 21st-century workplace skills. We have also developed a roadmap for our CX strategy for the next three years, identifying strategic initiatives that will help us create mutual value for clients across segments.

As always, I'd like to thank our staff, our customers, and shareholders for their loyalty, support and hard work in helping us to maintain focus on our core ideals and in helping make this transformation possible.

I also want to express my thanks to the Central Bank, regulators, and the UAE government for their continued support and trust as we emerge from the pandemic and look ahead to shared prosperity in the months ahead.

Abdulaziz Al Ghurair

Chairman, Mashreq

CEO's Message

This has been a significant year for Mashreq, with much of the Bank's progress underpinned by strong asset growth and the acquisition of clients through the successful leveraging of our advanced digital transformation.

Through strict cost controls and the deployment of new digital channels, we were able to not only deliver value for our customers in 2021 but also entrench the Bank's fiscal resilience through asset and market diversification. The Bank's position and overall resilience were further buoyed in 2021 by its market-leading proportion of non-funded income, reflecting the diverse nature of Mashreq's revenue engines. By year-end, the Bank had recorded significant improvements in operating income, driven in part by robust growth across the loan portfolio in an improved credit environment characterized by reduced impairments and a slight reduction in our non-performing-to-gross loan ratio.

Deposits crossed AED 100 billion for the first time in our history, and our loans and advances grew by nearly 14%. Across every division, the Bank achieved significant improvements in revenue generation in both the UAE and the international markets where we operate. In the face of stiff competition, the Corporate and Investment Banking Group (CIBG) grew its assets book by AED 10.6 billion – an 18% annual growth.

Notably, the Retail Banking Group (RBG) brought in nearly AED 500 million in net profit in 2021, thanks in no small part to a 21% YoY surge in consolidated assets and the success of NEOBiz, our digital bank for SMEs and start-ups. We also saw the Bank's mortgage business grow by 18% and a 27% uptick in wealth assets.

Our flagship digital products, which include the consumer platform Neo, our SME platform NEOBiz and our Corporate platform for Global Transaction banking, have all been scaled up to provide more support for our customers and growing businesses than ever before. Our book-running standing continued to improve, and we are now ranked second among the top GCC banks in syndicated loans for Global Loans.

As we look to securing sustained growth in 2022 and beyond, we will continue to invest in expanding our international footprint, particularly in improving investment flows between the UAE and China, and through the formulation of an effective Hong Kong / Asia strategy. More broadly, the Bank's corporate strategy will continue to focus on leveraging and widening our digital capabilities and on the integration of AI and advanced analytics in both front and backend solutions.

In the near term, Mashreq Bank will maintain a conservative risk appetite and continue to build a robust infrastructure and a compliance strategy aligned to the central government policies for each geography where Mashreq is present.

I am proud to note that our investments in our employees' well-being – our most important assets – and in improving diversity in the workplace are paying off. Feedback from employees across the business indicates that we have successfully implemented our hybrid working model, creating one of the industry's most engaged and motivated workforces. I am incredibly proud of how our workforce has handled itself.

Finally, I would like to thank our customers for their loyalty, our shareholders for their enduring support, and our regulators for their unwavering guidance.

Ahmed Abdelaal
Group CEO

Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2021

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

Mashreqbank PSC Group

Report and consolidated financial statements for the year ended 31 December 2021

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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 2021.

Incorporation and registered offices

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

Principal activities

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

Financial position and results

The financial position and results of the Group for the year ended 31 December 2021 are set out in the accompanying consolidated financial statements.

Dividend

The Board of Directors has proposed a cash dividend of 10% for the year ended 31 December 2021 at the meeting held on 31 January 2022.

Directors

The following are the Directors of the Bank as at 31 December 2021

Chairman:	H.E. Abdul Aziz Abdulla Al Ghurair
Vice Chairman:	Ali Rashed Ahmad Lootah
Directors:	Rashed Saif Saeed Al Jarwan Al Shamsi
	Rashed Saif Ahmed Al Ghurair
	John Gregory Iossifidis
	Iyad Mazher Saleh Malas
	Saeed Saif Ahmed Majid Al Ghurair

Auditors

The consolidated financial statements for the year ended 31 December 2021 have been audited by PricewaterhouseCoopers.

By order of the Board of Directors

H.E. Abdul Aziz Abdulla Al Ghurair
Chairman
31 January 2022

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

Report on the audit of the consolidated financial statements

Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Mashreqbank PSC (the "Bank") and its subsidiaries (together the "Group") as at 31 December 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

What we have audited

The Group's consolidated financial statements comprise:
- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

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

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

Independence

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

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Mohamed ElBorno ,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 its financial assets measured at amortised cost, debt instruments measured at fair value through other comprehensive income and financial guarantee contracts including financing commitments. The Group exercises significant judgements and makes a number of assumptions in developing its ECL models, which includes probability of default computation separately for retail and corporate portfolios, determining loss given default and exposure at default for both funded and unfunded exposures, forward looking adjustments and staging criteria.	We performed the following audit procedures on the computation of the ECL included in the Group's consolidated financial statements for the year ended 31 December 2021: ➢ We tested the completeness and accuracy of the data used in the calculation of ECL. ➢ For a sample of exposures, we checked the appropriateness of the Group's application of the staging criteria. ➢ We involved our internal experts to assess the following areas: • Conceptual framework used for developing the Group's impairment policy in the context of its compliance with the requirements of IFRS 9. • ECL modelling methodology and calculations used to compute the Probability of Default (PD), Loss Given Default (LGD), and exposure at default (EAD) for the Group's classes of financial assets. The appropriateness of the model methodology was assessed, giving specific consideration to COVID-19 and the judgement overlay. • Reasonableness of the assumptions made in developing the modelling framework including assumptions used for estimating forward looking scenarios and significant increase in credit risk.

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

Our audit approach (continued)

Key audit matters (continued)

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

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

Other information

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

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

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

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

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

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

The Directors are responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, and for such 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.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Report on other legal and regulatory requirements

Further, as required by the UAE Federal Law No. (2) of 2015, as amended, we report that:

(i) we have obtained all the information we considered necessary for the purposes of our audit;

(ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. (2) of 2015 as amended;

(iii) the Group has maintained proper books of account;

(iv) the financial information included in the Directors' report is consistent with the books of account of the Group;

(v) note 7 to the consolidated financial statements discloses the shares purchased by the Group during the year ended 31 December 2021;

(vi) note 37 to the consolidated financial statements discloses material related party transactions, and the terms under which they were conducted;

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

Report on other legal and regulatory requirements (continued)

(vii) Note 32 to the consolidated financial statements discloses the social contributions made during the year ended 31 December 2021; and

(viii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2021 any of the applicable provisions of the UAE Federal Law No. (2) of 2015, as amended, or in respect of the Bank, its Articles of Association, which would materially affect its activities or its financial position as at 31 December 2021.

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

PricewaterhouseCoopers
31 January 2022

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

Mashreqbank PSC Group

Consolidated statement of financial position

	Notes	As at 31 December 2021 AED'000	2021 USD'000 Equivalent	2020 AED'000	2020 USD'000 Equivalent
ASSETS					
Cash and balances with central banks	5	**17,507,751**	**4,766,608**	17,941,941	4,884,819
Deposits and balances due from banks	6	**28,805,095**	**7,842,389**	28,239,030	7,688,274
Other financial assets measured at fair value	7	**16,441,123**	**4,476,211**	8,439,103	2,297,605
Other financial assets measured at amortised cost	7	**10,277,824**	**2,798,210**	11,000,654	2,995,005
Loans and advances measured at amortised cost	8	**66,432,570**	**18,086,733**	57,286,411	15,596,627
Islamic financing and investment products measured at amortised cost	9	**15,053,454**	**4,098,408**	14,246,343	3,878,667
Acceptances		**14,340,671**	**3,904,348**	12,767,461	3,476,031
Other assets	10	**3,290,085**	**895,749**	3,478,455	947,035
Reinsurance contract assets	20	**2,699,966**	**735,085**	2,891,920	787,345
Investment in associate		**34,809**	**9,477**	20,996	5,716
Investment properties	11	**462,829**	**126,008**	449,715	122,438
Property and equipment	12	**1,426,096**	**388,265**	1,466,769	399,338
Intangible assets	13	**281,336**	**76,596**	294,442	80,164
Total assets		**177,053,609**	**48,204,087**	158,523,240	43,159,064
LIABILITIES AND EQUITY					
LIABILITIES					
Deposits and balances due to banks	14	**19,566,486**	**5,327,113**	14,844,380	4,041,487
Repurchase agreements with banks	15	**2,729,147**	**743,029**	2,289,723	623,393
Customers' deposits	16	**87,150,902**	**23,727,444**	76,375,973	20,793,894
Islamic customers' deposits	17	**14,332,087**	**3,902,011**	11,884,566	3,235,656
Acceptances		**14,340,671**	**3,904,348**	12,767,461	3,476,031
Other liabilities	18	**6,028,308**	**1,641,249**	5,808,908	1,581,516
Medium-term loans	19	**7,315,119**	**1,991,593**	9,616,042	2,618,035
Insurance contract liabilities	20	**4,566,602**	**1,243,290**	4,747,779	1,292,616
Total liabilities		**156,029,322**	**42,480,077**	138,334,832	37,662,628
EQUITY					
Capital and reserves					
Issued and paid up capital	21(a)	**2,006,098**	**546,174**	1,775,308	483,340
Statutory and legal reserves	21(b)	**1,012,320**	**275,611**	912,099	248,325
General reserve	21(c)	**312,000**	**84,944**	312,000	84,944
Currency translation reserve	21(d)	**(116,116)**	**(31,613)**	(98,332)	(26,771)
Investments revaluation reserve	21(e)	**(547,489)**	**(149,058)**	(358,088)	(97,492)
Cash flow hedge reserve	21(f)	**-**	**-**	(437)	(119)
Retained earnings		**17,561,412**	**4,781,218**	16,888,178	4,597,925
Equity attributable to owners of the Parent		**20,228,225**	**5,507,276**	19,430,728	5,290,152
Non-controlling interests	22	**796,062**	**216,734**	757,680	206,284
Total equity		**21,024,287**	**5,724,010**	20,188,408	5,496,436
Total liabilities and equity		**177,053,609**	**48,204,087**	158,523,240	43,159,064

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

Abdul Aziz Abdulla Al Ghurair
Chairman

Ahmed Abdelaal
Group Chief Executive Officer

Mashreqbank PSC Group

Consolidated statement of profit or loss

		For the year ended 31 December			
		2021		2020	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Interest income	24	**4,251,824**	**1,157,589**	4,514,924	1,229,220
Income from Islamic financing and investment products	25	**475,253**	**129,391**	543,477	147,965
Total interest income and income from Islamic financing and investment products		**4,727,077**	**1,286,980**	5,058,401	1,377,185
Interest expense	26	**(1,505,704)**	**(409,939)**	(2,110,697)	(574,652)
Distribution to depositors – Islamic products	27	**(175,884)**	**(47,886)**	(271,404)	(73,892)
Net interest income and income from Islamic products net of distribution to depositors		**3,045,489**	**829,155**	2,676,300	728,641
Fee and commission income	28	**3,418,086**	**930,598**	2,642,536	719,449
Fee and commission expenses	28	**(1,841,287)**	**(501,303)**	(1,423,024)	(387,428)
Net fee and commission income		**1,576,799**	**429,295**	1,219,512	332,021
Net investment income	29	**176,807**	**48,137**	321,380	87,498
Other income, net	30	**1,006,977**	**274,157**	931,072	253,491
Operating income		**5,806,072**	**1,580,744**	5,148,264	1,401,651
General and administrative expenses	32	**(2,622,957)**	**(714,119)**	(2,944,856)	(801,758)
Operating profit before impairment		**3,183,115**	**866,625**	2,203,408	599,893
Allowances for impairment, net	31	**(2,058,626)**	**(560,475)**	(3,356,819)	(913,918)
Profit/(loss) before tax		**1,124,489**	**306,150**	(1,153,411)	(314,025)
Tax expense		**(48,778)**	**(13,280)**	(51,840)	(14,114)
Profit/(loss) for the year		**1,075,711**	**292,870**	(1,205,251)	(328,139)
Attributable to:					
Owners of the Parent		**1,002,203**	**272,857**	(1,277,826)	(347,897)
Non-controlling interests		**73,508**	**20,013**	72,575	19,758
		1,075,711	**292,870**	(1,205,251)	(328,139)
Earnings/(loss) per share	33	**AED 5.56**	**USD 1.51**	AED (7.09)	USD (1.93)

Mashreqbank PSC Group

Consolidated statement of comprehensive income

	For the year ended 31 December			
	2021		2020	
	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Profit/(loss) for the year	**1,075,711**	**292,870**	(1,205,251)	(328,139)
Other comprehensive income/(loss)				
Items that will not be reclassified subsequently to profit or loss:				
Changes in fair value of financial assets measured at fair value through other comprehensive income (equity instruments) [Note 7(k)]	**58,631**	**15,963**	(30,966)	(8,431)
Items that may be reclassified subsequently to profit or loss:				
Changes in currency translation reserve	**(23,150)**	**(6,303)**	(13,072)	(3,559)
Changes in fair value of financial assets measured at fair value through other comprehensive income (debt instruments) [Note 7(k)]	**(232,616)**	**(63,332)**	(73,325)	(19,963)
Loss/(gain) on hedging instruments designated as hedges of net investment in foreign operations	**(1,586)**	**(432)**	716	196
Cash flow hedges - fair value loss arising during the year [Note 21(f)]	**437**	**120**	(4,729)	(1,288)
Total other comprehensive loss for the year	**(198,284)**	**(53,984)**	(121,376)	(33,045)
Total comprehensive income/(loss) for the year	**877,427**	**238,886**	(1,326,627)	(361,184)
Attributable to:				
Owners of the Parent	**791,895**	**215,599**	(1,391,731)	(378,909)
Non-controlling interests	**85,532**	**23,287**	65,104	17,725
	877,427	**238,886**	(1,326,627)	(361,184)

Mashreqbank PSC Group

Consolidated statement of changes in equity

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cash flow hedge reserve AED'000	Retained earnings AED'000	Equity attributable to owners of the Parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2020	1,775,308	907,714	312,000	(88,720)	(273,595)	4,292	18,895,583	21,532,582	710,348	22,242,930
Loss for the year ended 31 December 2020	-	-	-	-	-	-	(1,277,826)	(1,277,826)	72,575	(1,205,251)
Other comprehensive loss for the year	-	-	-	(9,612)	(99,564)	(4,729)	-	(113,905)	(7,471)	(121,376)
Total comprehensive loss for the year	-	-	-	(9,612)	(99,564)	(4,729)	(1,277,826)	(1,391,731)	65,104	(1,326,627)
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	15,071	-	(15,071)	-	-	-
Transfer to statutory and legal reserves	-	4,385	-	-	-	-	(4,385)	-	-	-
Transaction with non-controlling interest (NCI)	-	-	-	-	-	-	-	-	(17,772)	(17,772)
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710,123)	(710,123)	-	(710,123)
Balance at 31 December 2020	1,775,308	912,099	312,000	(98,332)	(358,088)	(437)	16,888,178	19,430,728	757,680	20,188,408
Profit for the year ended 31 December 2021	**-**	**-**	**-**	**-**	**-**	**-**	**1,002,203**	**1,002,203**	**73,508**	**1,075,711**
Other comprehensive loss/(income) for the year	**-**	**-**	**-**	**(17,784)**	**(192,962)**	**437**	**-**	**(210,309)**	**12,024**	**(198,285)**
Total comprehensive income for the year	**-**	**-**	**-**	**(17,784)**	**(192,962)**	**437**	**1,002,203**	**791,894**	**85,532**	**877,426**
Transfer from investments revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**3,561**	**-**	**(3,561)**	**-**	**-**	**-**
Transfer to statutory and legal reserves	**-**	**100,221**	**-**	**-**	**-**	**-**	**(100,221)**	**-**	**-**	**-**
Bonus shares issued during the year	**230,790**	**-**	**-**	**-**	**-**	**-**	**(230,790)**	**-**	**-**	**-**
Transaction with common control entity	**-**	**-**	**-**	**-**	**-**	**-**	**5,603**	**5,603**		**5,603**
Transaction with non-controlling interest (NCI) (Note 22)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(14,325)**	**(14,325)**
Payment of dividends (Note 22)	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(32,825)**	**(32,825)**
Balance at 31 December 2021	**2,006,098**	**1,012,320**	**312,000**	**(116,116)**	**(547,489)**	**-**	**17,561,412**	**20,228,225**	**796,062**	**21,024,287**

Mashreqbank PSC Group

Consolidated statement of cash flows

		For the year ended 31 December			
		2021		2020	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from operating activities					
Profit/(loss) before taxation for the year		**1,124,489**	**306,150**	(1,153,411)	(314,025)
Adjustments for:					
Depreciation and amortisation	32	**255,569**	**69,580**	231,963	63,154
Allowances for impairment, net	31	**2,058,626**	**560,475**	3,356,819	913,919
Gain on disposal of property and equipment	30	**3,447**	**939**	(8,110)	(2,208)
Unrealised gain on other financial assets held at FVTPL	29	**(8,521)**	**(2,320)**	(9,564)	(2,604)
Fair value adjustments of investment properties	30	**(13,114)**	**(3,571)**	23,876	6,500
Net realized gain from sale of other financial assets measured at FVTPL	29	**(28,305)**	**(7,706)**	(43,145)	(11,747)
Dividend income from other financial assets measured at FVTOCI	29	**(21,337)**	**(5,809)**	(24,961)	(6,796)
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	29	**(117,603)**	**(32,018)**	(242,328)	(65,976)
Share of loss from associate		**(7,090)**	**(1,930)**	(8,359)	(2,276)
Unrealised (gain)/loss on derivatives	30	**(30,724)**	**(8,365)**	19,602	5,337
Operating cash flows before tax paid and changes in operating assets and liabilities		**3,215,437**	**875,425**	2,142,382	583,278
Tax paid		**(48,778)**	**(13,280)**	(51,840)	(14,114)
Changes in operating assets and liabilities					
Decrease/(increase) in deposits with central banks		**4,363,482**	**1,187,989**	(346,953)	(94,460)
Increase in deposits and balances due from banks maturing after three months		**(4,029,531)**	**(1,097,068)**	(309,339)	(84,220)
(Increase)/decrease in loans and advances measured at amortised cost		**(10,926,602)**	**(2,974,844)**	1,755,721	478,007
Increase in Islamic financing and investment products measured at amortised cost		**(984,092)**	**(267,926)**	(102,448)	(27,892)
Decrease/(increase) in reinsurance assets		**191,954**	**52,261**	(306,002)	(83,311)
Decrease/(increase) in other assets		**219,532**	**59,769**	(1,089,214)	(296,546)
(Increase)/decrease in financial assets carried at FVTPL		**(783,251)**	**(213,246)**	3,893	1,060
Increase in repurchase agreements with banks		**439,424**	**119,636**	1,201,186	327,031
Increase/(decrease) in customers' deposits		**10,774,929**	**2,933,550**	(63,599)	(17,315)
Increase/(decrease) in Islamic customers' deposits		**2,447,522**	**666,356**	(2,644,695)	(720,037)
Increase in deposits and balances due to banks		**4,722,106**	**1,285,626**	3,659,885	996,429
(Decrease)/increase in insurance contract liabilities		**(181,177)**	**(49,327)**	493,990	134,493
Increase in other liabilities		**120,435**	**32,789**	858,350	233,692
Net cash generated from operating activities		**9,541,390**	**2,597,710**	5,201,317	1,416,095

Mashreqbank PSC Group

Consolidated statement of cash flows (continued)

		For the year ended 31 December			
		2021		2020	
	Notes	AED'000	USD'000 Equivalent	AED'000	USD'000 Equivalent
Cash flows from investing activities					
Purchase of property and equipment	12	**(129,216)**	**(35,180)**	(336,461)	(91,604)
Purchase on intangible assets	13	**(82,298)**	**(22,406)**	(137,468)	(37,427)
Proceeds from sale of property and equipment		**1,441**	**393**	117,500	31,990
Purchase of other financial assets measured at fair value or amortised cost		**(40,877,370)**	**(11,129,151)**	(12,740,338)	(3,468,646)
Proceeds from sale of other financial assets measured at fair value or amortised cost		**34,330,239**	**9,346,648**	8,885,295	2,419,084
Dividend income from other financial assets measured at FVTOCI	29	**21,337**	**5,809**	24,961	6,796
Investment in associate		**(13,813)**	**(3,761)**	-	-
Net cash used in investing activities		**(6,749,680)**	**(1,837,648)**	(4,186,511)	(1,139,807)
Cash flows from financing activities					
Transaction with NCI		**(14,325)**	**(3,900)**	(17,772)	(4,839)
Dividend paid		**(32,825)**	**(8,937)**	(710,123)	(193,336)
Medium term notes issued		**-**	**-**	2,355,258	641,236
Medium term notes redeemed		**(2,300,922)**	**(626,442)**	(4,577,973)	(1,246,385)
Net cash used in financing activities		**(2,348,072)**	**(639,279)**	(2,950,610)	(803,324)
Net increase/(decrease) in cash and cash equivalents		**443,638**	**120,783**	(1,935,804)	(527,036)
Net foreign exchange difference		**17,784**	**4,842**	9,613	2,617
Cash and cash equivalents at 1 January		**20,840,616**	**5,674,004**	22,766,807	6,198,423
Cash and cash equivalents at 31 December	35	**21,302,038**	**5,799,629**	20,840,616	5,674,004

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2021

1 General information

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

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

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

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

2.1 New and revised IFRS applied on the consolidated financial statements

The following new and revised IFRS, which became effective for annual periods beginning on or after 1 January 2021, have been adopted in these consolidated financial statements. The application of these revised IFRSs, except where stated, have not had any material impact on the amounts reported for the current and prior years.

- **Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16** - The Phase 2 amendments address issues that arise from the implementation of the reforms, including the replacement of one benchmark with an alternative one. The amendments cover the following areas:

    - Accounting for changes in the basis for determining contractual cash flows as a result of IBOR reform: For instruments to which the amortised cost measurement applies, the amendments require entities, as a practical expedient, to account for a change in the basis for determining the contractual cash flows as a result of IBOR reform by updating the effective interest rate using the guidance in paragraph B5.4.5 of IFRS 9. As a result, no immediate gain or loss is recognised. This practical expedient applies only to such a change and only to the extent it is necessary as a direct consequence of IBOR reform, and the new basis is economically equivalent to the previous basis. Insurers applying the temporary exemption from IFRS 9 are also required to apply the same practical expedient. IFRS 16 was also amended to require lessees to use a similar practical expedient when accounting for lease modifications that change the basis for determining future lease payments as a result of IBOR reform.

    - End date for Phase 1 relief for non-contractually specified risk components in hedging relationships: The Phase 2 amendments require an entity to prospectively cease to apply the Phase 1 reliefs to a non-contractually specified risk component at the earlier of when changes are made to the non-contractually specified risk component, or when the hedging relationship is discontinued. No end date was provided in the Phase 1 amendments for risk components.

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

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

- **Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16**

  - Additional temporary exceptions from applying specific hedge accounting requirements: The Phase 2 amendments provide some additional temporary reliefs from applying specific IAS 39 and IFRS 9 hedge accounting requirements to hedging relationships directly affected by IBOR reform.

  - Additional IFRS 7 disclosures related to IBOR reform: The amendments require disclosure of: (i) how the entity is managing the transition to alternative benchmark rates, its progress and the risks arising from the transition; (ii) quantitative information about derivatives and non-derivatives that have yet to transition, disaggregated by significant interest rate benchmark; and (iii) a description of any changes to the risk management strategy as a result of IBOR reform.

  Refer to page 144 of the financial statements for the impact of IBOR reform on the Group.

- **Amendment to IFRS 16, 'Leases' - Covid-19 related rent concessions** - As a result of the coronavirus (COVID-19) pandemic, rent concessions have been granted to lessees. In May 2020, the IASB published an amendment to IFRS 16 that provided an optional practical expedient for lessees from assessing whether a rent concession related to COVID-19 is a lease modification. On 31 March 2021, the IASB published an additional amendment to extend the date of the practical expedient from 30 June 2021 to 30 June 2022. Lessees can elect to account for such rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concession as variable lease payments in the period(s) in which the event or condition that triggers the reduced payment occurs.

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

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

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

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

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **Amendments to IAS 1, Presentation of financial statements' on classification of liabilities -** These narrow-scope amendments to IAS 1, 'Presentation of financial statements', clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (for example, the receipt of a waiver or a breach of covenant). The amendment also clarifies what IAS 1 means when it refers to the 'settlement' of a liability.	Deferred until accounting periods starting not earlier than 1 January 2024
The impact of the above amendment is expected to be immaterial on the consolidated financial statements of the Group.	
• **Narrow-scope amendments to IFRS 3, IAS 16, IAS 37 and some annual improvements on IFRS 9 and IFRS 16** Amendments to IFRS 3, 'Business combinations' update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting without changing the accounting requirements for business combinations. Amendments to IAS 16, 'Property, plant and equipment' prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognise such sales proceeds and related cost in profit or loss. Amendments to IAS 37, 'Provisions, contingent liabilities and contingent assets' specify which costs a company includes when assessing whether a contract will be loss-making. Annual improvements make minor amendments to IFRS 9, 'Financial instruments', and the Illustrative Examples accompanying IFRS 16, 'Leases'. The impact of the above amendments is expected to be immaterial on the consolidated financial statements of the Group.	1 January 2022

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

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

New standards, amendments and interpretations	Effective for annual periods beginning on or after
• **Narrow scope amendments to IAS 1, Practice statement 2 and IAS 8 -** The amendments aim to improve accounting policy disclosures and to help users of the financial statements to distinguish between changes in accounting estimates and changes in accounting policies. The impact of the above amendments is expected to be immaterial on the consolidated financial statements of the Group.	1 January 2023
• **Amendment to IAS 12 – deferred tax related to assets and liabilities arising from a single transaction -** These amendments require companies to recognise deferred tax on transactions that, on initial recognition give rise to equal amounts of taxable and deductible temporary differences.	1 January 2023

There are no other relevant applicable new standards and amendments to published standards or IFRS IC interpretations that have been issued but are not effective for the first time for the Group's financial year beginning on 1 January 2021 that would be expected to have a material impact on the consolidated financial statements of the Group.

3 Summary of significant accounting policies

3.1 Statement of compliance

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

The Group is required, for the year ended 31 December 2021, to be in compliance with the provisions of the UAE Federal Law No. 2 of 2015, as amended.

On 20 September 2021, the UAE Federal Decree Law No. 32 of 2021 ("Companies Law") was issued and came into effect on 2 January 2022 which repealed the UAE Federal Law No. 2 of 2015. The Group has 12 months from 2 January 2022 to comply with the provisions of the UAE Federal Decree Law No 32 of 2021.

3.2 Basis of preparation

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

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

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

The accounting policies used in the preparation of this consolidated financial statements are consistent with those audited annual consolidated financial statements for the year ended 31 December 2020.

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

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation

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

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

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries

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

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

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

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

Business combinations

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

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

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Business combinations (continued)

The excess of the

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

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

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

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

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

Investment in joint venture

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

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

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Investment in joint venture (continued)

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

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

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

3.4 Goodwill

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

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

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

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition

(a) Interest income and expense

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

(b) Income from Islamic financing and investments products

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

(c) Fee and commission income and expenses

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

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

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

(d) Dividend income

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

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition (continued)

(e) Insurance contracts revenue and insurance commission income

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

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

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

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

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

(g) Rental income

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

3.6 Leasing

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

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

3 Summary of significant accounting policies (continued)

3.6 Leasing (continued)

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

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

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

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

3.7 Foreign currencies

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

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

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

3 Summary of significant accounting policies (continued)

3.7 Foreign currencies (continued)

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.8 Borrowing costs

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

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

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

3.9 Investment properties

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

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

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

3 Summary of significant accounting policies (continued)

3.10 Property and equipment

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

Freehold land and capital work in progress are not depreciated.

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.11 Impairment of non-financial assets

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

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

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

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

3.12 Intangible assets

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

3 Summary of significant accounting policies (continued)

3.13 Provisions

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

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

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

3.14 Financial instruments

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

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

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

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

3.14.1 Financial assets

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

(i) Classification of financial assets

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

Debt instruments:

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

Amortised cost and effective interest method

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

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

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

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

(ii) Impairment of financial assets

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans

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

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans (continued)

Derecognition other than on a modification

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

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

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

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

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

3.14.2 Financial liabilities

<u>Classification and subsequent measurement</u>

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities (continued)

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

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

Derecognition

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

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

3.14.3 Financial guarantee contracts and loan commitments

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

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

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

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.4 Foreign exchange gains and losses

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

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

3.15 Offsetting of financial assets and liabilities

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

3.16 Derivative financial instruments

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

3 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments (continued)

(a) Embedded derivatives

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

3.17 Hedge accounting

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

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

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

Fair value hedges

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

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

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Cash flow hedges

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

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

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

Hedges of net investments in foreign operations

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

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts

3.18.1 Product classification

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

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

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

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

3.18.2 Recognition and measurement

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

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

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

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

3.18.4 Life assurance contracts

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

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

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

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

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

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

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

3.18.5 Reinsurance contracts

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

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

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

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

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

(b) Additional reserve

The additional reserve comprises of the provisions made for:

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

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

(c) Life assurance fund

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

(d) Unit-linked liabilities

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(e) Outstanding claims

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

Deferred Policy Acquisition Costs (DAC)

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

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

3.18.7 Salvage and subrogation reimbursements

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

3.18.8 Liability adequacy test

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

3 Summary of significant accounting policies (continued)

3.19 Taxation

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

3.20 Islamic financing and investment products

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

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

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

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

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

Ijarah

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

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

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Istisna’

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

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

Mudarabah

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

Wakalah

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

(ii) Accounting policy

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

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy

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

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

Murabaha

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

Ijarah

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

Mudarabah

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

Wakalah

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

(iv) Islamic customers' deposits and distributions to depositors

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

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

3 Summary of significant accounting policies (continued)

3.21 Provision for employees' end of service indemnity

Provision is made for the employees' end of service indemnity in accordance with the UAE labour law for their periods of service up to the financial position date. In addition, in accordance with the provisions of IAS 19, management has carried out an exercise to assess the present value of its obligations at the reporting date, using the projected unit credit method, in respect of employees' end of service benefits payable under the UAE Labour Law. The expected liability at the date of leaving the service has been discounted to net present value using an appropriate discount rate based on management's assumption of average annual increment/promotion costs. The present value of the obligation as at 31 December 2021 is not materially different from the provision computed in accordance with the UAE Labour Law.

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

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

3.22 Acceptances

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

3.23 Cash and cash equivalents

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

4 Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

4.1 Measurement of the expected credit loss allowance

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

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

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

4.2 Fair value of financial instruments

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

4.3 Derivative financial instruments

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

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

4.4 The ultimate liability arising from claims made under insurance contracts

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

5 Cash and balances with central banks

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

	2021 AED'000	2020 AED'000
Cash on hand	**1,027,306**	996,803
Balances with central banks:		
Current accounts and other balances	**9,223,621**	8,124,831
Statutory deposits	**4,456,824**	3,770,307
Certificates of deposit	**2,800,000**	5,050,000
	17,507,751	17,941,941

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

	2021 AED'000	2020 AED'000
Within the UAE	**10,336,038**	14,186,941
Outside the UAE	**7,171,713**	3,755,000
	17,507,751	17,941,941

(c) The Group is required to maintain statutory deposits with various central banks on demand, time and other deposits as per the statutory requirements. The statutory deposits are not available for use in the Group's day-to-day operations. Cash on hand and current account balances are non-interest-bearing. Certificate of deposits are at an average interest rate of 0.18% (31 December 2020: 0.21%) per annum

6 Deposits and balances due from banks

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

	2021 AED'000	2020 AED'000
Demand	**1,256,536**	2,419,545
Time	**27,716,058**	25,985,607
	28,972,594	28,405,152
Less: Allowance for impairment	**(167,499)**	(166,122)
	28,805,095	28,239,030

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

	2021 AED'000	2020 AED'000
Banks within the UAE	**4,391,518**	5,878,872
Banks outside the UAE	**24,581,076**	22,526,280
	28,972,594	28,405,152
Less: Allowance for impairment	**(167,499)**	(166,122)
	28,805,095	28,239,030

(c) *Allowance for impairment movement:*

	2021 AED'000	2020 AED'000
At beginning of the year	**166,122**	108,602
Charge during the year (Note 31)	**(4,404)**	54,678
Interest in suspense	**5,495**	2,910
Exchange rate and other adjustments	**286**	(68)
At end of the year	**167,499**	166,122

7 Other financial assets

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

	2021 AED'000	2020 AED'000
Other financial assets measured at fair value		
(i) Other financial assets measured at fair value through profit and loss (FVTPL)		
Debt securities	**1,548,129**	815,671
Equities		
Quoted	**37,668**	6,719
Unquoted	**1,113**	1,112
Mutual and other funds	**686,534**	629,865
	2,273,444	1,453,367
(ii) Other financial assets measured at fair value through other comprehensive income (FVTOCI)		
Debt securities	**13,480,719**	6,470,966
Equities		
Quoted	**577,857**	459,821
Unquoted	**53,589**	54,949
Mutual and other funds	**55,514**	-
	14,167,679	6,985,736
Total other financial assets measured at fair value (A)	**16,441,123**	8,439,103
(iii) Other financial assets measured at amortised cost		
Debt securities	**10,302,332**	11,021,883
Less: Allowance for impairment	**(24,508)**	(21,229)
Total other financial assets measured at amortised cost (B)	**10,277,824**	11,000,654
Total other financial assets [(A) +(B)]	**26,718,947**	19,439,757

7 Other financial assets (continued)

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

	2021 **AED'000**	2020 AED'000
Within the UAE	**10,908,883**	4,687,824
Outside the UAE	**15,834,572**	14,773,162
	26,743,455	19,460,986
Less: Allowance for impairment	**(24,508)**	(21,229)
	26,718,947	19,439,757

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

	2021 **AED'000**	2020 AED'000
Government and public sector	**15,988,557**	15,706,622
Commercial and business	**1,402,840**	660,723
Financial institutions	**9,284,617**	3,044,738
Other	**42,933**	27,674
	26,718,947	19,439,757

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

	2021 **AED'000**	2020 AED'000
At the beginning of the year	**21,229**	26,365
Charge/(reversal) during the year (Note 31)	**3,270**	(5,134)
Exchange rate and other adjustments	**9**	(2)
At end of the year	**24,508**	21,229

(e) The fair value of other financial assets measured at amortised cost amounted to AED 10.47 billion as of 31 December 2021 (31 December 2020: AED 11.33 billion) (Note 43).

(f) At 31 December 2021, certain financial assets measured at amortised cost, financial assets measured at fair value included debt securities with an aggregate carrying value of AED 2,890 million (fair value of AED 2,905 million) [31 December 2020: carrying value of AED 1,112 million (fair value of AED 1,146 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 2,288 million (31 December 2020: AED 708 million).

7 Other financial assets (continued)

(g) During the year ended 31 December 2021, the Group has reviewed its portfolio and sold certain other financial assets measured at amortised cost, resulting in a gain of AED 51 million (31 December 2020: a gain of AED 63 million) on the sale.

(h) As of 31 December 2021, there are no significant concentrations of credit risk for debt instruments measured at amortised cost. The carrying amount reflected above represents the Group's maximum exposure for credit risk for such assets.

(i) During the period from 1 January 2021 to 31 December 2021, dividends received from financial assets measured at FVTOCI amounting to AED 21 million (year ended 31 December 2020: AED 25 million) were recognised as net investment income in the condensed consolidated statement of profit or loss.

(j) As of 31 December 2021, change in fair value of other financial assets measured at FVTPL resulted in gain of AED 9 million (31 December 2020: a gain of AED 10 million) and was recognised as investment income in the consolidated statement of profit or loss (Note 29).

(k) As of 31 December 2021, change in fair value of other financial assets measured at FVTOCI resulted in a loss of AED 174 million (31 December 2020: a loss of AED 104 million) and was recognised in the consolidated statement of comprehensive income.

(l) During the year ended 31 December 2021, the Group purchased and disposed equity shares amounting to AED 1,526 million (31 December 2020 : AED 1,227 million) and AED 1,447 million (31 December 2020 : AED 1,251 million) respectively.

8 Loans and advances measured at amortised cost

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

	2021 **AED'000**	2020 AED'000
Loans	**63,354,455**	54,811,763
Overdrafts	**6,465,665**	5,331,364
Credit cards	**1,915,726**	1,784,967
Others	**790,801**	761,943
Total	**72,526,647**	62,690,037
Less: Allowance for impairment	**(6,094,077)**	(5,403,626)
	66,432,570	57,286,411

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

	2021 **AED'000**	2020 AED'000
Manufacturing	**11,404,850**	9,487,506
Construction	**6,939,219**	5,409,471
Trade	**14,706,291**	13,073,340
Transport and communication	**3,065,888**	2,857,810
Services	**7,368,222**	5,916,728
Financial institutions	**2,532,671**	927,106
Personal	**8,196,625**	7,697,088
Residential mortgage	**6,819,805**	5,538,042
Government and related enterprises	**11,493,076**	11,782,946
	72,526,647	62,690,037
Less: Allowance for impairment	**(6,094,077)**	(5,403,626)
	66,432,570	57,286,411

8 Loans and advances measured at amortised cost (continued)

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

	31 December 2021 AED'000	31 December 2020 AED'000
Manufacturing	**246,502**	341,500
Construction	**2,017,902**	452,769
Trade	**684,979**	646,108
Transport and communication	**531,710**	136,437
Services	**660,663**	655,002
Financial institutions	**14,630**	68,996
Personal	**1,777,812**	1,446,062
Residential mortgage	**99,050**	140,016
Government and related enterprises	**60,829**	1,516,736
	6,094,077	5,403,626

(d) In certain cases, the Group continues to carry certain classified doubtful debts and delinquent accounts on its books which have been fully provided. Interest is accrued on most of these accounts for litigation purposes only. As at 31 December 2021 and 2020, legal proceedings are pursued for some of these accounts by the Group in the normal course of business.

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

	2021 AED'000	2020 AED'000
At beginning of the year	**5,403,626**	3,844,371
Impairment allowance for the year (Note 31)	**1,529,908**	2,393,760
Interest in suspense	**150,359**	292,394
Exchange rate and other adjustments	**39,720**	9,329
Written off during the year	**(1,029,536)**	(1,136,228)
At end of the year	**6,094,077**	5,403,626

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

8 Loans and advances measured at amortised cost (continued)

(g) At 31 December 2021, certain loans and advances measured at amortised cost with an aggregate carrying value of AED 1,332 million (fair value of AED 945 million) [31 December 2020: carrying value of AED 1,435 million (fair value of AED 1,134 million)] were collateralised as at that date against repurchase agreements with banks ("Repo") of AED 441 million (31 December 2020: AED 550 million).

9 Islamic financing and investment products measured at amortised cost

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

	2021 **AED'000**	2020 AED'000
Financing		
Murabaha	**11,403,396**	8,788,168
Ijarah	**5,344,195**	6,087,374
	16,747,591	14,875,542
Investment		
Wakalah	**464,826**	426,010
	464,826	426,010
Total	**17,212,417**	15,301,552
Less: Unearned income	**(1,532,000)**	(647,879)
Allowance for impairment	**(626,963)**	(407,330)
	15,053,454	14,246,343

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

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

	2021 AED'000	2020 AED'000
Manufacturing	**1,878,933**	1,025,362
Construction	**1,875,799**	3,531,481
Trade	**1,001,147**	1,365,946
Transport and communication	**291,898**	388,312
Services	**2,692,387**	3,093,488
Financial institutions	**1,098,307**	1,052,322
Personal	**4,331,202**	2,023,739
Residential mortgage	**1,202,193**	1,155,660
Government and related enterprises	**2,840,551**	1,665,242
Total	**17,212,417**	15,301,552
Less: Unearned income	**(1,532,000)**	(647,879)
Allowance for impairment	**(626,963)**	(407,330)
	15,053,454	14,246,343

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

	2021 AED'000	2020 AED'000
Manufacturing	**7,957**	9,452
Construction	**378,133**	243,891
Trade	**109,196**	55,767
Transport and communication	**7,885**	12,906
Services	**17,002**	22,678
Financial institutions	**3,707**	3,931
Personal	**11,299**	8,571
Residential mortgage	**36,947**	45,782
Government and related enterprises	**54,837**	4,352
	626,963	407,330

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

(d) Allowance for impairment movement:

	2021 **AED'000**	2020 AED'000
At beginning of the year	**407,330**	128,590
Impairment allowance for the year (Note 31)	**203,822**	310,864
Profit in suspense	**16,042**	29,477
Written off during the year	**(231)**	(61,601)
At end of the year	**626,963**	407,330

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

(f) At 31 December 2021, certain Islamic financing and investment products measured at amortised cost included with an aggregate carrying value of nil (fair value of nil) [31 December 2020: carrying value of AED 471 million (fair value of AED 455 million)] which were collateralised as at that date against repurchase agreements with banks ("Repo") of nil (31 December 2020: AED 222 million).

10 Other assets

	2021	2020
	AED'000	AED'000
Interest receivable	**296,794**	277,350
Property acquired in settlement of debts*	**86,055**	94,951
Prepayments	**111,284**	70,556
Positive fair value of derivatives (Note 41)	**1,028,186**	1,512,413
Insurance related receivables (net) **	**562,465**	583,020
Insurance related deferred acquisition costs	**150,381**	154,765
Credit card related receivables	**228,299**	313,322
Taxes paid in advance	**109,041**	102,519
Commission / income receivable	**36,155**	32,758
Advances to suppliers/ vendors	**241,748**	138,395
Others	**437,677**	198,406
	3,290,085	3,478,455

* As of 31 December 2021, property acquired in settlement of debts includes property with a book value of AED 202 million (31 December 2020: AED 209 million) against which a provision of AED 116 million is held (31 December 2020: AED 114 million). This includes some properties which are registered in the name of the Chairman on trust and for the benefit of the Group.

** As of 31 December 2021, the Group has recorded a provision of AED 439 million (31 December 2020: AED 431 million) against insurance related receivables.

11 Investment properties

	2021	2020
	AED'000	AED'000
At fair value		
At beginning of the year	**449,715**	473,591
Change in fair value during the year (Note 30)	**13,114**	(23,876)
At end of the year	**462,829**	449,715

All of the Group's investment properties are held under freehold interest and located in the UAE. As at 31 December 2021 and 31 December 2020 these were classified as level 3 in the fair value hierarchy.

11 Investment properties (continued)

Valuation processes

The Group's investment properties were valued as at 31 December 2021 and 31 December 2020 by independent external professionally qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and segments of the investment properties valued. The fair value is in accordance with relevant appraisal and valuation standards issued by the Royal Institute of Chartered Surveyors ("RICS").

Valuation techniques underlying management's estimation of fair value

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

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

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

For the sales comparison method, if the prices of the comparable properties were to increase/ decrease by 1%, the fair value would increase / decrease by AED 1.8 million (31 December 2020: AED 0.6 million). For the DCF method, if the discount rate were to increase/ decrease by 0.25% and considering all other assumptions to remain constant, the fair value would increase/decrease by 3% (31 December 2020: 1%). For the residual method, if the capitalization rate were to increase/ decrease by 0.25% and considering all other assumptions to remain constant, the fair value would increase/ decrease by +4%/-4% (31 December 2020: for the residual or income capitalisation method, if the capitalization rates were to increase/ decrease by 0.25% and considering all other assumptions to remain constant, the fair value would increase/ decrease by +7%/-6%).

12 Property and equipment

	Properties for own use AED'000	Furniture, fixtures, equipment & vehicles AED'000	Improvements to freehold properties and others AED'000	Right-of-use assets AED'000	Capital work-in-progress* AED'000	Total AED'000
Cost						
At 1 January 2020	631,503	330,921	152,294	192,126	642,568	1,949,412
Additions during the year	-	48,692	96,644	42,684	148,441	336,461
Transfers	532,928	100,192	113,061	-	(746,181)	-
Disposals/write-offs/elimination	(7,924)	(35,919)	(135,768)	(39,734)	-	(219,345)
At 31 December 2020	**1,156,507**	**443,886**	**226,231**	**195,076**	**44,828**	**2,066,528**
Additions during the year	**-**	**30,304**	**21,123**	**26,222**	**51,567**	**129,216**
Transfers	**32,525**	**8,502**	**2,100**	**-**	**(43,127)**	**-**
Disposals/write-offs/elimination	**-**	**(64,720)**	**(17,118)**	**(52,798)**	**(318)**	**(134,954)**
At 31 December 2021	**1,189,032**	**417,972**	**232,336**	**168,500**	**52,950**	**2,060,790**
Accumulated depreciation and impairment						
At 1 January 2020	203,431	212,306	74,072	91,610	-	581,419
Charge for the year (Note 32)	22,878	46,279	33,865	52,716	-	155,738
Disposals/write-offs	(3,085)	(30,657)	(63,921)	(39,735)	-	(137,398)
At 31 December 2020	**223,224**	**227,928**	**44,016**	**104,591**	**-**	**599,759**
Charge for the year (Note 32)	**30,018**	**50,761**	**32,171**	**47,765**	**-**	**160,715**
Disposals/write-offs/elimination	**-**	**(58,948)**	**(12,667)**	**(54,165)**	**-**	**(125,780)**
At 31 December 2021	**253,242**	**219,741**	**63,520**	**98,191**	**-**	**634,694**
Carrying amount						
At 31 December 2021	**935,790**	**198,231**	**168,816**	**70,309**	**52,950**	**1,426,096**
At 31 December 2020	933,283	215,958	182,215	90,485	44,828	1,466,769

* Capital work-in-progress mainly related to the new Head Office of the Group which has been capitalised during the year ended 31 December 2020.

13 Intangible assets

	Software AED'000
Cost	
At 1 January 2020	526,452
Additions during the year	137,469
Disposals/write-offs/elimination	(63,021)
At 31 December 2020	600,900
Additions during the year	**82,298**
Disposals/write-offs/elimination	**(13,544)**
At 31 December 2021	**669,654**
Accumulated depreciation and impairment	
At 1 January 2020	263,575
Charge for the year (Note 32)	76,225
Disposals/write-offs/elimination	(33,342)
At 31 December 2020	306,458
Charge for the year (Note 32)	**94,854**
Disposals/write-offs/elimination	**(12,994)**
At 31 December 2021	**388,318**
Carrying amount	
At 31 December 2021	**281,336**
At 31 December 2020	294,442

14 Deposits and balances due to banks

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

	2021 AED'000	2020 AED'000
Time	**13,947,840**	10,117,449
Demand	**3,192,445**	2,079,656
Overnight	**2,426,201**	2,647,275
	19,566,486	14,844,380

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

	2021 AED'000	2020 AED'000
Banks within the UAE	**1,761,073**	1,751,736
Banks outside the UAE	**17,805,413**	13,092,644
	19,566,486	14,844,380

15 Repurchase agreements with banks

	2021 AED'000	2020 AED'000
Repurchase agreements	**2,729,147**	2,289,723

The above repurchase agreements with banks are at an average interest rate of 1.14% (31 December 2020: 2.66%) per annum. Collateral provided as security against these Repo borrowings are disclosed in Note 7(f), 8(g) and 9(f) to the consolidated financial statements.

16 Customers' deposits

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

	2021 AED'000	2020 AED'000
Current and other accounts	**50,248,066**	39,907,698
Saving accounts	**6,109,303**	4,271,221
Time deposits	**30,793,533**	32,197,054
	87,150,902	76,375,973

16 Customers' deposits (continued)

(b) Analysis by industry sector:

	2021 AED'000	2020 AED'000
Government and public sector	**6,105,551**	5,812,573
Commercial and business	**56,772,841**	48,157,046
Personal	**19,846,620**	17,385,515
Financial institutions	**3,842,613**	4,533,955
Other	**583,277**	486,884
	87,150,902	76,375,973

17 Islamic customers' deposits

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

	2021 AED'000	2020 AED'000
Current and other accounts	**3,586,227**	2,649,864
Saving accounts	**191,227**	153,396
Time deposits	**10,554,633**	9,081,306
	14,332,087	11,884,566

(b) Analysis by industry sector:

	2021 AED'000	2020 AED'000
Government and public sector	**812,773**	456,559
Commercial and business	**3,899,289**	3,246,715
Personal	**1,082,002**	955,007
Financial institutions	**8,538,023**	7,226,285
	14,332,087	11,884,566

18 Other liabilities

	2021	2020
	AED'000	AED'000
Interest payable	**425,204**	552,774
Negative fair value of derivatives (Note 41)	**970,260**	1,292,784
Insurance related payables	**572,859**	594,729
Accrued expenses	**861,278**	925,219
Income received in advance	**538,702**	295,802
Pay orders issued	**533,625**	550,775
Provision for employees' end of service indemnity**	**234,980**	248,331
Provision for taxation	**104,531**	90,936
Lease liability	**62,280**	82,160
Others	**1,185,817**	706,656
Allowance for impairment – off balance sheet	**538,772**	468,742
	6,028,308	5,808,908

** Provision for employees' end of service indemnity included AED 212 million (31 December 2020: AED 231 million) for estimated amounts required to cover employees' end of service indemnity at the reporting date as per UAE Labour Law.

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

19 Medium-term loans

	2021	2020
	AED'000	AED'000
Medium term notes	**7,315,119**	9,616,042

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

Year	**2021**	2020
	AED'000	AED'000
2021	**-**	2,225,351
2022	**2,095,531**	2,126,261
2023	**389,753**	402,886
2024	**3,989,012**	3,994,994
2025	**799,917**	826,462
2029	**40,906**	40,088
	7,315,119	9,616,042

Medium term notes are denominated in following currencies:

	2021	2020
	AED'000	AED'000
U.S. Dollars	**5,254,006**	6,904,126
Japanese Yen	**593,340**	887,436
Australian Dollars	**53,376**	56,785
Chinese Yuan	**1,170,251**	1,161,424
Euro	**83,223**	90,246
South African Rand	**36,941**	40,077
Great Britain Pound	**123,982**	475,948
	7,315,119	9,616,042

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

During the year ended 31 December 2021, AED 2 billion of medium-term notes were redeemed.

20 Insurance contract liabilities and reinsurance contract assets

	2021 AED'000	2020 AED'000
Insurance contract liabilities		
Outstanding claims	**2,188,676**	2,295,448
Incurred but not reported claims reserve	**484,339**	623,989
Life assurance fund	**113,442**	133,755
Unearned premium	**1,346,425**	1,295,244
Unit linked liabilities	**426,321**	391,701
Unallocated loss adjustment expenses reserve	**7,399**	7,642
	4,566,602	4,747,779

	2021 AED'000	2020 AED'000
Reinsurance contract assets		
Outstanding claims	**1,734,884**	1,838,783
Incurred but not reported claims reserve	**227,102**	344,412
Life assurance fund	**21,502**	24,981
Unearned premium	**716,478**	683,744
	2,699,966	2,891,920

	2021 AED'000	2020 AED'000
Insurance contract liabilities-net		
Outstanding claims	**453,792**	456,665
Incurred but not reported claims reserve	**257,237**	279,577
Life assurance fund	**91,940**	108,774
Unearned premium	**629,948**	611,500
Unit linked liabilities	**426,321**	391,701
Unallocated loss adjustment expenses reserve	**7,398**	7,642
	1,866,636	1,855,859

20 Insurance contract liabilities and reinsurance contract assets (continued)

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

	2021			**2020**		
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	Reinsurance AED'000	Net AED'000
At 1 January	**2,927,079**	**(2,183,195)**	**743,884**	2,438,081	(1,841,540)	596,541
Claims incurred during the year	**2,394,478**	**(1,295,860)**	**1,098,618**	2,772,951	(1,668,815)	1,104,136
Claims settled during the year	**(2,641,143)**	**1,517,068**	**(1,124,075)**	(2,283,953)	1,327,160	(956,793)
At 31 December	**2,680,414**	**(1,961,987)**	**718,427**	2,927,079	(2,183,195)	743,884

20.2 Movement in life assurance fund

	AED'000
At 1 January 2020	142,302
Net movement during the year	(33,528)
At 31 December 2020	108,774
Net movement during the year	**(16,834)**
At 31 December 2021	**91,940**

20. 3 Movement in unit linked liabilities

	AED'000
At 1 January 2020	332,324
Net movement during the year	59,377
At 31 December 2020	391,701
Net movement during the year	**34,620**
At 31 December 2021	**426,321**

20 Insurance contract liabilities and reinsurance contract assets (continued)

The following table presents the sensitivity of the value of insurance contract liabilities disclosed in this note to movements in the assumptions used in the estimation of insurance contract liabilities. For liabilities under long-term insurance contracts with fixed and guaranteed terms, changes in assumptions will not cause a change to the amount of liability, unless the change is severe enough to trigger a liability adequacy test adjustment. No losses arose in either 2021 or 2020, based on the results of the liability adequacy test. The table below indicates the level of the respective variable that will trigger an adjustment and then indicates the liability adjustment required as a result of further deterioration in the variable.

	Change in assumptions	**Increase /(decrease) in net liability**	
		2021	2020
		AED'000	AED'000
Morality/morbidity	**+10%**	**518**	620
Discount rate	**+75bps**	**(2,541)**	(3,149)
Morality/morbidity	**-10%**	**(522)**	(625)
Discount rate	**-75bps**	**2,735**	3,400

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

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

As at 31 December 2021, 200,609,830 ordinary shares of AED 10 each (31 December 2020: 177,530,823 ordinary shares of AED 10 each) were fully issued and paid up.

(b) Statutory and legal reserves

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

(c) General reserve

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

21 Issued and paid up capital and reserves (continued)

(d) Currency translation reserve

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

(e) Investments revaluation reserve

Investments revaluation reserve shows the effects from the fair value measurement of Financial assets measured at FVTOCI. The change in fair value for the year amounted to a loss of AED 174 million (31 December 2020: loss of AED 104 million) and was reflected in the consolidated statement of comprehensive income [note 7(k)].

(f) Cash flow hedge reserve

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

(g) Dividends on equity instruments

At the Annual General Meeting of the shareholders held on 19 April 2021, the shareholders approved a nil cash dividend for the year ended 31 December 2020 (31 December 2019: cash dividend of 40% of the issued and paid up capital amounting to AED 710 million).

22 Non-controlling interests

	2021 AED'000	2020 AED'000
At beginning of the year	**757,680**	710,348
Share of profit for the year (Note 36)	**73,508**	72,575
Share of other comprehensive income/(loss) for the year	**12,024**	(7,471)
Dividend paid	**(32,825)**	-
Transaction with NCI	**(14,325)**	(17,772)
At end of the year	**796,062**	757,680

23 Contingent liabilities and commitments

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

	2021 AED'000	2020 AED'000
Guarantees	**33,706,515**	40,270,247
Letters of credit	**15,785,785**	9,235,601
Commitments for capital expenditure	**290,668**	317,697
	49,782,968	49,823,545

(b) Irrevocable undrawn credit facilities commitments as at 31 December 2021 amounted to AED 7.95 billion (31 December 2020: AED 6.25 billion).

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

24 Interest income

	2021 AED'000	2020 AED'000
Loans and advances	**2,647,739**	2,895,464
Banks	**689,138**	847,521
Central banks	**73,641**	148,669
Other financial assets measured at amortised cost	**469,375**	444,623
Others	**371,931**	178,647
	4,251,824	4,514,924

25 Income from Islamic financing and investment products

	2021 AED'000	2020 AED'000
Financing		
Murabaha	**302,081**	304,587
Ijarah	**154,190**	209,738
Other	**4,512**	-
	460,783	514,325
Investment		
Wakalah	**14,470**	29,152
	14,470	29,152
Total	**475,253**	543,477

26 Interest expense

	2021 AED'000	2020 AED'000
Customers' deposits	**927,886**	1,320,733
Deposits and balances due to banks	**301,234**	457,305
Medium-term loans	**276,584**	332,659
	1,505,704	2,110,697

27 Distribution to depositors – Islamic products

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

28 Net fee and commission income

	2021 **AED'000**	2020 AED'000
Fee and commission income		
Commission income	**588,614**	481,081
Insurance commission	**228,609**	195,032
Fees and charges on banking services	**667,576**	598,659
Credit card related fees	**1,720,244**	1,167,108
Others	**213,043**	200,656
Total	**3,418,086**	2,642,536
Fee and commission expenses		
Commission expense	**(34,553)**	(27,235)
Insurance commission	**(327,286)**	(324,485)
Credit card related expenses	**(1,356,517)**	(986,744)
Others	**(122,931)**	(84,560)
Total	**(1,841,287)**	(1,423,024)
Net fee and commission income	**1,576,799**	1,219,512

29 Net investment income

	2021 **AED'000**	2020 AED'000
Net realised gain from sale of other financial assets measured at FVTPL	**28,305**	43,145
Unrealised gain on other financial assets measured at FVTPL [Note 7(j)]	**8,521**	9,564
Dividend income from other financial assets measured at FVTPL	**1,041**	1,382
Net realised gain from sale of other financial assets measured at amortised cost/ FVTOCI	**117,603**	242,328
Dividend income from other financial assets measured at FVTOCI [Note 7 (i)]	**21,337**	24,961
	176,807	321,380

30 Other income, net

	2021 AED'000	2020 AED'000
Foreign exchange gains	**472,228**	390,141
Insurance related income (Note 36)	**454,995**	528,027
(Loss)/gain on disposal of property and equipment	**(3,447)**	8,110
Unrealised gain/(loss) on derivatives	**30,724**	(19,602)
Unrealised gain/(loss) on investment properties (Note 11)	**13,114**	(23,876)
Others	**39,363**	48,272
	1,006,977	931,072

31 Allowances for impairment, net

	2021 AED'000	2020 AED'000
Deposits and balances due from banks [Note 6(c)]	**(4,404)**	54,678
Other financial assets measured at amortised cost [Note 7(d)]	**3,270**	(5,134)
Other financial assets measured at FVOCI	**3,372**	728
Loans and advances measured at amortised cost [Note 8(e)]	**1,529,908**	2,393,760
Islamic financing and investment products measured at amortised cost [Note 9(d)]	**203,822**	310,864
Other assets	**10,190**	13,441
Change in impairment allowance on off-balance sheet items	**88,773**	312,099
Loans and advances including Islamic financing and investment products measured at amortized cost written off	**408,412**	327,384
Recovery of loans and advances including Islamic financing and investment products measured at amortised cost previously written off	**(184,717)**	(51,001)
	2,058,626	3,356,819

32 General and administrative expenses

	2021 AED'000	2020 AED'000
Salaries and employees related expenses	**1,466,741**	1,535,704
Depreciation on property and equipment (Note 12)	**160,715**	155,738
Amortisation on intangible assets (Note 13)	**94,854**	76,225
Social contribution	**1,785**	3,733
Others	**898,862**	1,173,456
	2,622,957	2,944,856

33 Earnings/(loss) per share

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

	2021	2020
Profit/(loss) for the year (AED'000) (Attributed to owners of the Parent)	**1,002,203**	(1,277,826)
Number of ordinary shares outstanding [Note 21(a)]	**200,609,830**	177,530,823
Basic and diluted earnings/(loss) per share (AED)	**5.56**	(7.09)

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

34 Proposed dividends

The board of Directors has proposed a 10% cash dividend for the year ended 31 December 2021 at their meeting held on 31 January 2022.

35 Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, current accounts and other balances with central bank, certificates of deposits, balances with banks and money market placements which are maturing within three months from the value date of the deposit or placement, as below.

	2021 AED’000	2020 AED’000
Cash on hand	**1,027,306**	996,803
Current accounts and other balances with central banks	**9,223,621**	8,124,832
Certificates of deposit maturing within 3 months	**2,800,000**	-
Deposits and balances due from banks maturing within 3 months	**8,251,111**	11,718,981
	21,302,038	20,840,616

36 Investment in subsidiaries and associates

(a) At 31 December 2021, Mashreqbank PSC Group (the "Group") comprises the Bank and the following direct subsidiaries, associates and joint venture:

Name	Place of incorporation (or registration) and operation	Proportion of ownership interest %	Principal activity
Subsidiary			
Oman Insurance Company (PSC)	United Arab Emirates	64.46	Insurance & reinsurance
Mindscape FZ LLC	United Arab Emirates	100.00	IT services
Mashreq Securities LLC	United Arab Emirates	99.98	Brokerage
Mashreq Capital (DIFC) Limited	United Arab Emirates	100.00	Brokerage and asset & fund management
Mashreq Al Islami Finance Company (PJSC)	United Arab Emirates	99.80	Islamic finance company
Injaz Services FZ LLC	United Arab Emirates	100.00	Service provider
Invictus Limited	Cayman Islands	100.00	Special purpose vehicle
Al Taqania Employment Services One Person Company LLC	United Arab Emirates	100.00	Employment Services
Al Kafaat Employment Services One Person Company LLC	United Arab Emirates	100.00	Employment Services
Mashreq for Business Process Support (Sole Person Company)	Egypt	100.00	Employment Services
Mashreq Global Services (SMC private) Limited	Pakistan	100.00	Employment Services
Shorouq Commodities Trading DMCC	United Arab Emirates	100.00	Trading
IDFAA Payment Services LLC	United Arab Emirates	100.00	Payment service provider
Osool – A Finance Company (PJSC) *	United Arab Emirates	98.00	Finance
Associate			
Emirates Digital Wallet LLC	United Arab Emirates	23.22	Digital wallet service
Joint venture			
Noon Digital Pay LLC	United Arab Emirates	51.00	Digital wallet service

* Under liquidation

Notes to the consolidated financial statements for the year ended 31 December 2021 (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	
	2021	2020	**2021**	2020
	AED'000	AED'000	**AED'000**	AED'000
Oman Insurance Company (PSC)	**73,077**	72,330	**789,970**	748,973
Individually immaterial subsidiaries with non - controlling interests	**431**	245	**6,092**	8,707
	73,508	72,575	**796,062**	757,680

(c) Other financial assets measured at FVTPL include investments by Oman Insurance Company PSC amounting to AED 447 million (31 December 2020: AED 394 million).

(d) During the year ended 31 December 2021, the Group sold investments held at fair value through other comprehensive income amounting to AED 154 million at the time of sale (31 December 2020: AED 133 million). The Group realised a loss of AED 6 million (31 December 2020: loss of AED 27 million) which was transferred to retained earnings.

36 Investment in subsidiaries and associates (continued)

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

	2021 AED'000	2020 AED'000
Statement of financial position		
Total assets	**7,555,814**	7,634,687
Total liabilities	**5,332,820**	5,558,920
Net equity	**2,222,994**	2,075,767

	2021 AED'000	2020 AED'000
Statement of comprehensive income		
Gross insurance premium	**3,538,930**	3,585,104
Less: Insurance premium ceded to reinsurers	**(1,953,527)**	(1,952,002)
Net retained premium	**1,585,403**	1,633,102
Net change in unearned premium and mathematical reserve	**(31,791)**	(939)
Net earned insurance premium	**1,553,612**	1,632,163
Gross claims settled	**(2,641,143)**	(2,283,953)
Insurance claims recovered from reinsurers	**1,517,068**	1,327,160
Net claims settled	**(1,124,075)**	(956,793)
Net change in outstanding claims and additional reserve	**25,457**	(147,343)
Net claims incurred	**(1,098,618)**	(1,104,136)
Insurance related income (Note 30)	**454,994**	528,027
Net commission and other loss	**(55,976)**	(87,085)
Net investment income	**138,323**	90,296
Net expenses	**(331,216)**	(334,693)
Profit for the year	**206,125**	196,545
Other comprehensive loss	**38,056**	(15,463)
Total comprehensive income	**244,181**	181,082
Statement of cash flows		
Net cash generated from operating activities	**53,562**	199,106
Net cash used in investing activities	**17,184**	(45,780)
Net cash used in financing activities	**(97,940)**	(26,950)
Net (decrease)/ increase in cash and cash equivalents	**(27,194)**	126,376

37 Related party transactions

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

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

	2021	2020
	AED'000	AED'000
Balances with major shareholders		
Loans and advances	**2,810,150**	3,575,543
Deposits/ financial instruments under lien	**1,029,236**	979,128
Letter of credit and guarantees	**1,854,305**	1,362,098
Balances with directors and key management personnel		
Loans and advances	**125,107**	72,488
Deposits/ financial instruments under lien	**230,884**	189,520
Letter of credit and guarantees	**5,369**	82,832

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

	2021	2020
	AED'000	AED'000
Transactions with major shareholders		
Interest income	**79,407**	135,070
Interest expense	**891**	1,705
Other income	**33,984**	46,120
Transactions with directors and key management personnel		
Interest income	**2,011**	3,198
Interest expense	**71**	490
Other income	**341**	501

(d) Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. Compensation of key management personnel comprises of salaries, bonuses and other benefits amounted in total to AED 40 million (31 December 2020: AED 38 million).

38 Concentration of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2021			31 December 2020		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
UAE.	**89,063,593**	**74,602,940**	**26,291,091**	87,839,540	72,494,789	31,227,767
Other Middle East Countries	**37,079,026**	**31,949,362**	**8,772,586**	27,550,381	24,881,814	6,145,460
O.E.C.D.	**19,846,199**	**29,787,617**	**6,264,462**	17,423,643	21,325,242	5,301,288
Others	**31,064,791**	**19,689,404**	**8,164,161**	25,709,676	19,632,987	6,831,333
	177,053,609	**156,029,323**	**49,492,300**	158,523,240	138,334,832	49,505,848

(b) Industry Sectors

	31 December 2021			31 December 2020		
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets	Liabilities	Letter of credit and guarantees
	AED'000	**AED'000**	**AED'000**	AED'000	AED'000	AED'000
Government and public sector	**29,948,837**	**7,194,809**	**44,682**	28,620,730	6,502,837	234,787
Commercial & business	**59,148,116**	**74,139,651**	**34,386,637**	54,781,239	65,843,185	38,604,914
Personal	**19,243,040**	**21,504,238**	**480,376**	15,180,851	18,869,364	407,917
Financial institutions	**66,620,002**	**51,993,297**	**14,374,179**	58,365,437	45,424,934	10,198,730
Others	**2,093,614**	**1,197,328**	**206,426**	1,574,983	858,633	59,500
	177,053,609	**156,029,323**	**49,492,300**	158,523,240	138,334,832	49,505,848

39 Segmental information

Reportable segments

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

Reportable segments

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

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

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

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

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

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

(v) All Islamic banking products offered to customers are included under the Islamic Banking segment. These products are Ijarah Home Finance, Mudarabah Deposit, Mudarabah savings account, Musharaka finance, Murabaha commodity finance, Ijarah Equipment Finance, Sukuk Underwriting, Musharaka LC, Murabaha LC, TR Murabaha, Kafala, Wakala Deposit, Reverse Murabaha Deposit & Sukuk Advisory.

39 Segmental information (continued)

Reportable segments (continued)

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

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2021							
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**Islamic banking** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	**1,016,181**	**954,511**	**214,689**	**299,368**	**371,702**	**81,381**	**107,657**	**3,045,489**
Non interest income, net	**686,150**	**707,735**	**661,088**	**74,658**	**195,520**	**453,230**	**(17,798)**	**2,760,583**
Operating income	**1,702,331**	**1,662,246**	**875,777**	**374,026**	**567,222**	**534,611**	**89,859**	**5,806,072**
General and administrative expenses								**(2,622,957)**
Operating profit before impairment								**3,183,115**
Allowances for impairment, net								**(2,058,626)**
Profit before tax								**1,124,489**
Tax expense								**(48,778)**
Profit for the year								**1,075,711**
Attributable to:								
Owners of the Parent								**1,002,203**
Non-controlling interests								**73,508**
								1,075,711
Segment Assets	**61,650,177**	**17,263,207**	**36,209,355**	**15,093,871**	**18,634,754**	**7,466,493**	**20,735,752**	**177,053,609**
Segment Liabilities	**51,973,472**	**36,727,897**	**17,472,601**	**15,033,770**	**11,887,394**	**5,305,995**	**17,628,193**	**156,029,322**

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2020							
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**Islamic banking** AED'000	**International banking** AED'000	**Insurance** AED'000	**Other** AED'000	**Total** AED'000
Net interest income and earnings from Islamic products	850,554	913,053	(11,434)	272,073	280,066	82,343	289,645	2,676,300
Non interest income, net	589,191	495,004	673,098	65,312	184,584	449,051	15,724	2,471,964
Operating income	1,439,745	1,408,057	661,664	337,385	464,650	531,394	305,369	5,148,264
General and administrative expenses								(2,944,856)
Operating profit before impairment								2,203,408
Allowances for impairment, net								(3,356,819)
Loss before tax								(1,153,411)
Tax expense								(51,840)
Loss for the year								(1,205,251)
Attributable to:								
Owners of the Parent								(1,277,826)
Non-controlling interests								72,575
								(1,205,251)
Segment Assets	50,953,938	14,611,527	40,493,411	14,743,950	11,134,784	7,513,691	19,071,939	158,523,240
Segment Liabilities	48,281,737	30,133,069	15,127,649	12,668,622	10,853,882	5,529,196	15,740,677	138,334,832

39 Segmental information (continued)

Geographical information

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

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

	Operating income from external customers *		**Non-current assets** **	
	2021 AED'000	2020 AED'000	**2021 AED'000**	2020 AED'000
UAE	**4,711,137**	4,188,913	**2,062,938**	2,093,416
Other Middle East countries	**810,728**	687,634	**76,036**	79,546
O.E.C.D.	**173,383**	186,150	**22,250**	29,582
Other countries	**110,824**	85,567	**9,037**	8,382
	5,806,072	5,148,264	**2,170,261**	2,210,926

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

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

Revenue from major products and services

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

Information about major customers

No single customer contributed 10% or more to the Group's revenue for the year ended 31 December 2021 and 2020.

40 Classification of financial assets and liabilities

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

	FVTPL AED'000	FVTOCI AED'000	Amortised cost AED'000	Total AED'000
Financial assets:				
Cash and balances with central banks	-	-	**17,507,751**	**17,507,751**
Deposits and balances due from banks	-	-	**28,805,095**	**28,805,095**
Other financial assets measured at fair value	**2,273,444**	**14,167,679**	-	**16,441,123**
Other financial assets measured at amortised cost	-	-	**10,277,824**	**10,277,824**
Loans and advances measured at amortised cost	-	-	**66,432,570**	**66,432,570**
Islamic financing and investment products measured at amortised cost	-	-	**15,053,454**	**15,053,454**
Acceptances			**14,340,671**	**14,340,671**
Other assets	**1,028,186**	-	**1,887,183**	**2,915,369**
Total	**3,301,630**	**14,167,679**	**154,304,548**	**171,773,857**
Financial liabilities:				
Deposits and balances due to banks	-	-	**19,566,486**	**19,566,486**
Repurchase agreements with banks	-	-	**2,729,147**	**2,729,147**
Customers' deposits	-	-	**87,150,902**	**87,150,902**
Islamic customers' deposits	-	-	**14,332,087**	**14,332,087**
Acceptances			**14,340,671**	**14,340,671**
Other liabilities	**970,260**	-	**3,606,976**	**4,577,236**
Medium-term loans	-	-	**7,315,119**	**7,315,119**
Total	**970,260**	-	**149,041,388**	**150,011,648**

40 Classification of financial assets and liabilities (continued)

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

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

41 Derivatives

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

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

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

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

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

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

The Group measures a net Credit Value Adjustment (CVA) on outstanding OTC derivative contracts to account for market value of 'credit risk' due to any failure to perform on contractual agreements by a counterparty. CVA is computed on all OTC derivatives asset classes including Foreign Exchange, Interest Rates, Equities and Commodities etc. CVA ensure derivatives transactions are priced or/and adequate reserves are built to account for expected credit losses in the derivatives portfolios. CVA is a function of our expected exposure to counterparts, probability of default and recovery rates. Internally the Group manages and monitor the exposure to this risk by defining controls and limits around a 'peak future exposure' (PFE) measure and in many cases by collateralizing facilities under Credit Support Annex (CSA). As at 31 December 2021, net incremental CVA charge to statement of profit or loss amounts to AED 7 million (31 December 2020: AED 16 million).

41 Derivatives (continued)

31 December 2021

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

41 Derivatives (continued)

31 December 2020

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

42 Capital management

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

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

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

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

Regulatory capital

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

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

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

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

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

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

42 Capital management (continued)

Regulatory capital (continued)

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

As per the Central bank regulation for Basel III, the capital requirement as at 31 December 2021 is 13% inclusive of capital conservation buffer.

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

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

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

42 Capital management (continued)

Regulatory capital (continued)

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

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

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

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

42 Capital management (continued)

Regulatory capital (continued)

(a) The Group's regulatory capital positions as at 31 December 2021 and 31 December 2020 were as follows:

	2021 **AED'000**	2020 AED'000
Common equity Tier 1 capital		
Issued and paid up capital	**2,006,098**	1,775,308
Statutory and legal reserve	**1,012,320**	912,099
General reserve	**312,000**	312,000
Currency translation reserve	**(116,116)**	(98,332)
Investments revaluation reserve	**(547,489)**	(358,088)
Retained earnings	**17,360,802**	16,941,770
Less: Regulatory deductions	**(241,729)**	(204,050)
Total (A)	**19,785,886**	19,280,707
Additional Tier 1 capital	**-**	-
Total Tier 1 capital (B)	**19,785,886**	19,280,707
Tier 2 capital		
General provision	**1,693,975**	1,471,323
Total	**1,693,975**	1,471,323
Total capital base (C)	**21,479,861**	20,752,030
Credit risk	**135,518,028**	117,705,874
Market risk	**3,206,199**	2,219,454
Operational risk	**9,444,817**	9,724,272
Total risk-weighted assets (D)	**148,169,044**	129,649,600
Capital adequacy ratio [(C)/(D) x 100]	**14.50%**	16.01%

42 Capital management (continued)

Regulatory capital (continued)

Capital allocation

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

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

43 Risk management

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

The Group is exposed to the following material risks:

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

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

Risk Management Framework

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

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

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

43 Risk management (continued)

Risk Management Framework (continued)

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

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

Capital Management

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

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

43 Risk management (continued)

Risk Appetite & Stress Testing

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

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

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

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

Credit risk management

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

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

43 Risk management (continued)

Credit risk management (continued)

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

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

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

<u>Loans and advances (including loan commitments, LCs and LGs)</u>

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

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

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

43 Risk management (continued)

Credit risk management (continued)

Credit risk grading

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

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

Borrower risk ratings are mapped into the following 5 Grades:

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

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

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

43 Risk management (continued)

Credit risk management (continued)

Expected credit loss measurement

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

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

Significant increase in credit risk (SICR)

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

Quantitative criteria

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

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

43 Risk management (continued)

Credit risk management (continued)

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

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

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

Qualitative criteria:

Corporate Loans

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

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

The Group has not used the low credit exemption for any financial instruments in the year ended 31 December 2021 and 31 December 2020.

Backstop:

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

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets

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

Quantitative criteria

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

Qualitative criteria:

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

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

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

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

43 Risk management (continued)

Credit risk management (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

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

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

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

43 Risk management (continued)

Credit risk management (continued)

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

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

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

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

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

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

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

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

43 Risk management (continued)

Credit risk management (continued)

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

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

Forward looking information incorporated in the ECL models

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

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

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

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

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

43 Risk management (continued)

Credit risk management (continued)

Sensitivity analysis

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

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

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

The Group has performed a sensitivity analysis on how ECL on the credit portfolio will change if the key assumptions used to calculate ECL change by a certain percentage. The impact on ECL due to changes in the forecasted probabilities of default as a result of variations in Total Debt to GDP and Broad Money by +10% / -10% in each scenario would result in an ECL reduction by AED 79 million and an ECL increase AED 101 million respectively. These variations are applied simultaneously to each probability weighted scenarios used to compute the expected credit losses. In reality there will be interdependencies between the various economic inputs and the exposure to sensitivity will vary across the economic scenarios.

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

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

	2021				2020			
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**	**Stage 2**	**Stage 3**	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Cash and balances with Central Bank	**17,507,751**	**-**	**-**	**17,507,751**	17,941,941	-	-	17,941,941
Loss allowance	**-**	**-**	**-**	**-**	-	-	-	-
Carrying amount	**17,507,751**	**-**	**-**	**17,507,751**	17,941,941	-	-	17,941,941
Deposits and balances due from banks								
Investment-grade	**5,765,434**	**72,762**	**-**	**5,838,196**	7,217,923	117,961	-	7,335,884
BB+ & below	**12,103,401**	**1,360,385**	**-**	**13,463,786**	5,598,832	2,926,065	-	8,524,897
Unrated	**8,114,789**	**1,476,877**	**78,946**	**9,670,612**	9,978,354	2,480,994	85,023	12,544,371
	25,983,624	**2,910,024**	**78,946**	**28,972,594**	22,795,109	5,525,020	85,023	28,405,152
Loss allowance	**(92,130)**	**(14,417)**	**(60,952)**	**(167,499)**	(69,256)	(41,409)	(55,457)	(166,122)
Carrying amount	**25,891,494**	**2,895,607**	**17,994**	**28,805,095**	22,725,853	5,483,611	29,566	28,239,030

43 Risk management (continued)

Credit risk management (continued)

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

	2021			
	Stage 1	Stage 2	Stage 3	
Loans and advances -At amortised cost	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Grading 1	**9,078,535**	**6,076**	**-**	**9,084,611**
Grading 2	**36,528,058**	**668,497**	**-**	**37,196,555**
Grading 3	**16,703,319**	**3,831,848**	**-**	**20,535,167**
Grading 4	**111,610**	**1,140,026**	**-**	**1,251,636**
Grading 5	**-**	**-**	**4,458,678**	**4,458,678**
	62,421,522	**5,646,447**	**4,458,678**	**72,526,647**
Loss allowance	**(511,719)**	**(1,235,239)**	**(4,347,119)**	**(6,094,077)**
Carrying amount	**61,909,803**	**4,411,208**	**111,559**	**66,432,570**
Islamic financing and investment products measured at amortised cost				
Grading 1	**2,006,169**	**4**	**-**	**2,006,173**
Grading 2	**6,932,848**	**228,169**	**-**	**7,161,017**
Grading 3	**5,150,110**	**360,932**	**-**	**5,511,042**
Grading 4	**838**	**25,927**	**-**	**26,765**
Grading 5	**-**	**-**	**975,420**	**975,420**
	14,089,965	**615,032**	**975,420**	**15,680,417**
Loss allowance	**(51,011)**	**(12,106)**	**(563,846)**	**(626,963)**
Carrying amount	**14,038,954**	**602,926**	**411,574**	**15,053,454**

43 Risk management (continued)

Credit risk management (continued)

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

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

43 Risk management (continued)

Credit risk management (continued)

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

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

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

43 Risk management (continued)

Credit risk management (continued)

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

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

43 Risk management (continued)

Credit risk management (continued)

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

	2021				2020			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other assets	**-**	**566,636**	**435,185**	**1,001,821**	-	585,565	428,432	1,013,997
Loss allowance	**-**	**(19,743)**	**(419,613)**	**(439,356)**	-	(17,789)	(413,188)	(430,977)
Carrying amount	**-**	**546,893**	**15,572**	**562,465**	-	567,776	15,244	583,020
Acceptances	**14,137,040**	**203,631**	**-**	**14,340,671**	12,680,894	86,567	-	12,767,461
Loss allowance	**(25,618)**	**(3,787)**	**-**	**(29,405)**	(25,277)	(1,021)	-	(26,298)

43 Risk management (continued)

Credit risk management (continued)

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

	2021				2020			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
Credit risk exposures relating to off-balance sheet items are as follows:	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
Letters of credit	**13,957,351**	**1,767,518**	**60,916**	**15,785,785**	7,772,256	1,396,332	67,013	9,235,601
Guarantees	**28,330,800**	**4,195,544**	**1,180,171**	**33,706,515**	35,097,006	2,858,541	2,314,700	40,270,247
Undrawn credit commitments -Irrevocable	**7,832,021**	**118,026**	**-**	**7,950,047**	6,244,126	3,556	-	6,247,682
	50,120,172	**6,081,088**	**1,241,087**	**57,442,347**	49,113,388	4,258,429	2,381,713	55,753,530
Loss allowance	**(62,093)**	**(38,680)**	**(408,594)**	**(509,367)**	(66,481)	(50,963)	(325,000)	(442,443)

43 Risk management (continued)

Credit risk management (continued)

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

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

	2021	2020
	AED'000	AED'000
Trading assets		
- Debt securities	**1,548,129**	815,671
- Derivatives	**929,573**	1,406,654
Hedging derivatives	**98,613**	105,759
	2,576,315	2,328,084

Risk management in the current economic scenario

Economic fallout from COVID-19 crisis continues to be significant and rapidly evolving at the present time. Regulators and governments across the globe have introduced fiscal and economic stimulus measures to mitigate its impact. As at 31 December 2021, the Group has not utilized (31 December 2020: AED 753 million) the Zero Coupon Facility ("ZCF") available under CBUAE Targeted Economic Support Scheme ("TESS") that was launched in April 2020 as a countermeasure to COVID-19.

While the Group continues to closely monitor the situation and work closely with clients to work through any residual elements of COVID-19 related stresses, it is management's view that economic risks associated with the pandemic are moderating. A majority of the wholesale and retail banking customers who had previously availed deferral schemes from the bank have now resumed repayment. The proportion of customers utilizing the deferral schemes have declined compared to the prior year. The Group also continues to manage specific credit concerns resulting from the crisis, particularly for clients within directly impacted sectors, such as aviation, hospitality, contracting, travel & tourism, and retail sectors. Overall, the Group continues to apply sound judgment in managing any residual COVID-19 impact on its clients' cash flows and credit worthiness.

COVID-19 impact on measurement of ECL

The Group has robust governance in place to ensure appropriateness of the IFRS 9 framework and resultant Expected Credit Loss ("ECL") estimates at all times. Specifically, all aspects of the IFRS 9 framework are overseen by the ERC and the IFRS 9 Forum ("the forum"). The forum is chaired by the Head of Enterprise Risk Management with participation from business, Finance, credit & risk management departments. The Group, through the forum, reviews the appropriateness of inputs and methodology for ECL on an ongoing basis.

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

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

In addition, the Group continues to review the appropriateness of ECL provisions in light of changes in macroeconomic environment, risk profile as well as any actual and expected increase in credit risk.

The outcome of the review is as follows:

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

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

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

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

As at 31 December 2021, the proportion of clients benefitting from deferrals along with their exposures and ECL is as follows:

		Group 1		Group 2	
Sector	Total gross carrying amount	Gross carrying amount	ECL	Gross carrying amount	ECL
		AED (in million)			
Manufacturing	13,283	10	-	-	-
Construction	8,814	302	1	37	-
Trade	15,708	1,184	28	44	1
Transport and communication	3,358	282	13	-	-
Services	10,061	1,883	9	52	5
Financial institutions	3,631	82	-	-	-
Personal*	12,528	1,334	36	504	76
Residential mortgage*	8,022	1,296	3	484	6
Government and related enterprises	14,334	96	-	-	-
	89,739	6,469	90	1,121	88

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

The Bank has deferred payments for customers inline with the economic relief programmes announced in the countries, where the Bank operates. Due to the payment deferrals, the contractual cashflows from these credit exposures (gross carrying amount of AED 2.9 billion) have been modified and in accordance with IFRS 9 requirements the Group has recognized a modification loss of AED 43 million, which is included as part of the ECL.

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

The summary of customers benefiting from deferrals as at 31 December 2021 is as follows:

Stage	**Group**	**Number of clients deferred**	**Payment deferrals**	**Exposure**	**Impairment allowance**
			AED (in million)		
	Group 1	**19,966**	**990**	**5,461**	**52**
Stage 1	**Group 2**	**3**	**66**	**66**	**-**
		19,969	**1,056**	**5,527**	**52**
	Group 1	**109**	**212**	**1,008**	**38**
Stage 2	**Group 2**	**6,824**	**180**	**1,055**	**87**
		6,933	**392**	**2,063**	**125**
	Total	**26,902**	**1,448**	**7,590**	**177**

Reasonableness of ECL estimates under COVID-19 crisis

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

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

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

In accordance with IFRS 9 requirements, the Group estimates these risk parameters under optimistic, base and pessimistic scenarios with representative weights used to measure ECL. In accordance with provisions of the Joint Guidance, the Group updated macroeconomic forecasts in 2021 to estimate ECL. At the same time, the Group reintroduced normalized scenario probability[1] across base, optimistic and pessimistic scenarios. No changes have been introduced in 2021 to the scenario weights used in IFRS 9 ECL computations.

From a sensitivity analysis point of view, if the pessimistic scenario was changed by +10% / -10%, ECL would reduce by AED 25 million and increase by AED 24 million respectively.

The Group had previously maintained a Credit Judgmental Overlay (“JO”) of AED 175 million to reflect potential increase in credit risk emanating from impact of COVID 19 in the credit cycle. The Group is of the view that risks associated with the pandemic have now mostly crystalized and are reflected in the business performance. Accordingly, the JO has been discontinued during the year. Even though the JO has been discontinued, the Group continues to closely monitor the impact of COVID-19 crisis on credit portfolios and overall levels of credit risk. Most corporate borrowers within vulnerable sectors have been internally re-rated in 2021 using their most up to date financial position. Accordingly, any deterioration in credit quality since the onset of the pandemic is now reflected in the ECL estimation.

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

43 Risk management (continued)

Credit risk management (continued)

Collateral and other credit enhancements

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

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

	Loans and advances and Islamic financing and investment products		**Due from banks**	
	31 December 2021 AED'000	31 December 2020 AED'000	**31 December 2021 AED'000**	31 December 2020 AED'000
Against individually impaired:				
Properties	**784,532**	1,264,662	**-**	-
Cash	**45,332**	97,259	**-**	-
Others	**241,030**	197,403	**-**	-
	1,070,894	1,559,324	**-**	-
Against not impaired:				
Properties	**21,929,281**	24,222,693	**-**	-
Equities	**928,144**	715,766	**-**	-
Cash	**17,068,995**	15,490,902	**1,291,248**	1,137,424
Others	**4,831,537**	6,475,362	**-**	-
	44,757,957	46,904,723	**1,291,248**	1,137,424
Total	**45,828,851**	48,464,047	**1,291,248**	1,137,424

43 Risk management (continued)

Loss allowance

The following tables explain the changes in the loss allowance for the year ended 31 December 2021 and 31 December 2020:

	2021				2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Deposits and balances due from banks								
Loss allowance as at 1 January	**69,256**	**41,409**	**55,457**	**166,122**	89,419	5,963	13,220	108,602
Transfers								
Transfer from Stage 1 to Stage 2	**(13,022)**	**13,022**	**-**	**-**	(41,366)	41,366	-	-
Transfer from Stage 2 to Stage 3	**-**	**(1)**	**1**	**-**	-	-	-	-
Transfer from Stage 2 to Stage 1	**37**	**(37)**	**-**	**-**	3	(3)	-	-
New financial assets originated	**96,237**	**-**	**-**	**96,237**	108,536	-	-	108,536
Changes in PDs/LGDs/EADs	**(60,378)**	**(39,976)**	**5,494**	**(94,860)**	(87,336)	(5,917)	42,237	(51,016)
Loss allowance as at 31 December	**92,130**	**14,417**	**60,952**	**167,499**	69,256	41,409	55,457	166,122

43 Risk management (continued)

Loss allowance (continued)

	2021				2020			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Stage 1 12-month ECL**	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
	AED'000	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**	**AED'000**
Loans and advances measured at amortised cost								
Loss allowance as at 1 January	**556,764**	**2,274,612**	**2,572,250**	**5,403,626**	435,818	1,498,488	1,910,065	3,844,371
Transfers								
Transfer from Stage 1 to Stage 2	**(149,949)**	**149,949**	**-**	**-**	(394,706)	394,706	-	-
Transfer from Stage 1 to Stage 3	**(15,085)**	**-**	**15,085**	**-**	(30,878)	-	30,878	-
Transfer from Stage 2 to Stage 1	**1,240**	**(1,240)**	**-**	**-**	12,720	(12,720)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(747,341)**	**747,341**	**-**	-	(96,221)	96,221	-
Transfer from Stage 3 to Stage 2	**-**	**-**	**-**	**-**	-	155	(155)	-
New financial assets originated	**297,592**	**-**	**-**	**297,592**	592,872	-	-	592,872
Changes in PDs/LGDs/EADs	**(178,843)**	**(440,741)**	**2,041,979**	**1,422,395**	(59,062)	490,204	1,671,469	2,102,611
Write-offs	**-**	**-**	**(1,029,536)**	**(1,029,536)**	-	-	(1,136,228)	(1,136,228)
Loss allowance as at 31 December	**511,719**	**1,235,239**	**4,347,119**	**6,094,077**	556,764	2,274,612	2,572,250	5,403,626

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Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

43 Risk management (continued)

Loss allowance (continued)

	2021				2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Islamic financing and investment products measured at amortised cost								
Loss allowance as at 1 January	**58,112**	**12,530**	**336,688**	**407,330**	39,795	6,151	82,644	128,590
Transfers								-
Transfer from Stage 1 to Stage 2	**(2,602)**	**2,602**	**-**	**-**	(11,818)	11,818	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(4,001)	-	4,001	-
Transfer from Stage 2 to Stage 1	**2**	**(2)**	**-**	**-**	6	(6)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(419)**	**419**	**-**	-	(4,179)	4,179	-
New financial assets originated	**30,371**	**-**	**-**	**30,371**	42,916	-	-	42,916
Changes in PDs/LGDs/EADs	**(34,872)**	**(2,605)**	**226,970**	**189,493**	(8,786)	(1,254)	307,465	297,425
Write-offs	**-**	**-**	**(231)**	**(231)**	-	-	(61,601)	(61,601)
Loss allowance as at 31 December	**51,011**	**12,106**	**563,846**	**626,963**	58,112	12,530	336,688	407,330

43 Risk management (continued)

Loss allowance (continued)

	2021				2020			
	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000	Stage 1 12-month ECL AED'000	Stage 2 Lifetime ECL AED'000	Stage 3 Lifetime ECL AED'000	Total AED'000
Other financial assets measured at amortised cost								
Loss allowance as at 1 January	**19,024**	**-**	**2,205**	**21,229**	19,047	5,113	2,205	26,365
Transfers								
Transfer from Stage 1 to Stage 2	**-**	**-**	**-**	**-**	-	-	-	-
New financial assets originated	**12,780**	**-**	**-**	**12,780**	12,619	-	-	12,619
Changes in PDs/LGDs/EADs	**(9,501)**	**-**	**-**	**(9,501)**	(12,642)	(5,113)	-	(17,755)
Loss allowance as at 31 December	**22,303**	**-**	**2,205**	**24,508**	19,024	-	2,205	21,229

43 Risk management (continued)

Loss allowance (continued)

	2021				2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
Other assets								
Loss allowance as at 1 January	**-**	**17,789**	**413,188**	**430,977**	-	20,769	437,100	457,869
Transfers								
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-	-	-	-
Changes in PDs/LGDs/EADs	**-**	**2,212**	**21,693**	**23,905**	-	(2,960)	15,839	12,879
FX and other movements	**-**	**-**	**(2,875)**	**(2,875)**	-	-	-	-
Write-offs	**-**	**(258)**	**(12,393)**	**(12,651)**	-	(20)	(39,751)	(39,771)
Loss allowance as at 31 December	**-**	**19,743**	**419,613**	**439,356**	-	17,789	413,188	430,977

43 Risk management (continued)

Loss allowance (continued)

	2021				2020			
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**
LCs, LGs, irrevocable undrawn commitments and acceptances								
Loss allowance as at 1 January	**91,757**	**51,984**	**325,000**	**468,741**	99,099	59,686	-	158,785
Transfers								-
Transfer from Stage 1 to Stage 2	**(14,239)**	**14,239**	**-**	**-**	(6,417)	6,417	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(97,972)	-	97,972	-
Transfer from Stage 2 to Stage 1	**3,071**	**(3,071)**	**-**	**-**	1,845	(1,845)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(86)**	**86**	**-**	-	(6,863)	6,863	-
Transfer from Stage 3 to Stage 2	**-**	**-**	**-**	**-**	-	607	(607)	-
New financial assets originated	**69,292**	**-**	**-**	**69,292**	155,606	-	-	155,606
Changes in PDs/LGDs/EADs	**(62,170)**	**(20,599)**	**83,508**	**739**	(60,404)	(6,018)	220,772	154,350
Loss allowance as at 31 December	**87,711**	**42,467**	**408,594**	**538,772**	91,757	51,984	325,000	468,741

43 Risk management (continued)

Gross carrying amount

The following tables further explains the changes in the gross carrying amount for the year ended 31 December 2021 and 31 December 2020:

	2021				2020			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Cash and balances with central banks								
Gross carrying amount as at 1 January	**17,941,941**	**-**	**-**	**17,941,941**	20,939,700	-	-	20,939,700
New financial assets originated	**2,800,000**	**-**	**-**	**2,800,000**	9,550,000	-	-	9,550,000
Repayments and other movements	**(3,234,190)**	**-**	**-**	**(3,234,190)**	(12,547,759)	-	-	(12,547,759)
Gross carrying amount as at 31 December	**17,507,751**	**-**	**-**	**17,507,751**	17,941,941	-	-	17,941,941

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Deposits and balances due from banks								
Gross carrying amount as at 1 January	**22,795,110**	**5,525,019**	**85,023**	**28,405,152**	25,348,120	1,288,001	38,329	26,674,450
Transfers								
Transfer from Stage 1 to Stage 2	**(2,849,582)**	**2,849,582**	**-**	**-**	(5,326,464)	5,326,464	-	-
Transfer from Stage 2 to Stage 1	**1,987**	**(1,987)**	**-**	**-**	1,415	(1,415)	-	-
Transfer from Stage 2 to Stage 3	**-**	**(14)**	**14**	**-**	-	-	-	-
New financial assets originated	**25,953,680**	**-**	**-**	**25,953,680**	25,956,861	-	-	25,956,861
Repayments and other movements	**(19,917,571)**	**(5,462,576)**	**(6,091)**	**(25,386,238)**	(23,184,822)	(1,088,031)	46,694	(24,226,159)
Gross carrying amount as at 31 December	**25,983,624**	**2,910,024**	**78,946**	**28,972,594**	22,795,110	5,525,019	85,023	28,405,152

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Other financial assets measured at amortised cost and FVTOCI (debt securities)								
Gross carrying amount as at 1 January	**17,492,244**	**-**	**2,205**	**17,494,449**	12,357,332	1,009,106	2,205	13,368,643
New financial assets originated	**11,787,603**	**-**	**-**	**11,787,603**	9,391,139	-	-	9,391,139
Repayments and other movements	**(5,494,047)**	**-**	**-**	**(5,494,047)**	(4,256,227)	(1,009,106)	-	(5,265,333)
Gross carrying amount as at 31 December	**23,785,800**	**-**	**2,205**	**23,788,005**	17,492,244	-	2,205	17,494,449

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000	Stage 1 12-month AED'000	Stage 2 Lifetime AED'000	Stage 3 Lifetime AED'000	Total AED'000
Loans and advances measured at amortised cost								
Gross carrying amount as at 1 January	**53,807,604**	**5,305,950**	**3,576,483**	**62,690,037**	57,261,500	5,141,967	3,151,181	65,554,648
Transfers								
Transfer from Stage 1 to Stage 2	**(3,655,063)**	**3,655,063**	**-**	**-**	(3,922,161)	3,922,161	-	-
Transfer from Stage 1 to Stage 3	**(222,739)**	**-**	**222,739**	**-**	(420,580)	-	420,580	-
Transfer from Stage 2 to Stage 3	**-**	**(969,760)**	**969,760**	**-**	-	(928,334)	928,334	-
Transfer from Stage 3 to Stage 2	**-**	**14**	**(14)**	**-**	-	1,249	(1,249)	-
Transfer from Stage 2 to Stage 1	**80,278**	**(80,278)**	**-**	**-**	378,362	(378,362)	-	-
New financial assets originated	**38,703,246**	**-**	**-**	**38,703,246**	34,226,398	-	-	34,226,398
Repayments and other movements	**(26,291,804)**	**(2,264,542)**	**719,246**	**(27,837,100)**	(33,715,915)	(2,452,731)	213,865	(35,954,781)
Write-offs	**-**	**-**	**(1,029,536)**	**(1,029,536)**	-	-	(1,136,228)	(1,136,228)
Gross carrying amount as at 31 December	**62,421,522**	**5,646,447**	**4,458,678**	**72,526,647**	53,807,604	5,305,950	3,576,483	62,690,037

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Islamic financing and other investments measured at amortised cost								
Gross carrying amount as at 1 January	**13,301,319**	**291,424**	**1,060,930**	**14,653,673**	13,718,735	532,172	334,440	14,585,347
Transfers								
Transfer from Stage 1 to Stage 2	**(319,103)**	**319,103**	**-**	**-**	(211,891)	211,891	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(367,862)	-	367,862	-
Transfer from Stage 2 to Stage 3	**-**	**(5,396)**	**5,396**	**-**	-	(65,008)	65,008	-
Transfer from Stage 2 to Stage 1	**1,931**	**(1,931)**	**-**	**-**	10,679	(10,679)	-	-
New financial assets originated	**7,985,879**	**-**	**-**	**7,985,879**	7,880,139	-	-	7,880,139
Repayments and other movements	**(6,880,061)**	**11,832**	**(90,675)**	**(6,958,904)**	(7,728,481)	(376,952)	355,221	(7,750,212)
Write-offs	**-**	**-**	**(231)**	**(231)**	-	-	(61,601)	(61,601)
Gross carrying amount as at 31 December	**14,089,965**	**615,032**	**975,420**	**15,680,417**	13,301,319	291,424	1,060,930	14,653,673

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**
Other assets								
Gross carrying amount as at 1 January	**-**	**585,565**	**428,432**	**1,013,997**	-	597,644	459,230	1,056,874
Repayments and other movements	**-**	**(18,671)**	**19,146**	**475**	-	(12,059)	8,953	(3,106)
Write-offs	**-**	**(258)**	**(12,393)**	**(12,651)**	-	(20)	(39,751)	(39,771)
Gross carrying amount as at 31 December	**-**	**566,636**	**435,185**	**1,001,821**	-	585,565	428,432	1,013,997
Acceptances								
Gross carrying amount as at 1 January	**12,680,894**	**86,567**	**-**	**12,767,461**	12,749,871	153,212	-	12,903,083
Transfers					-	-	-	-
Transfer from Stage 1 to Stage 2	**(182,817)**	**182,817**	**-**	**-**	(91,840)	91,840	-	-
Transfer from Stage 2 to Stage 1	**-**	**-**	**-**	**-**	394	(394)	-	-
New financial assets originated	**16,073,629**	**-**	**-**	**16,073,629**	13,132,880	-	-	13,132,880
Repayments and other movements	**(14,434,666)**	**(65,753)**	**-**	**(14,500,419)**	(13,110,411)	(158,091)	-	(13,268,502)
Gross carrying amount as at 31 December	**14,137,040**	**203,631**	**-**	**14,340,671**	12,680,894	86,567	-	12,767,461

43 Risk management (continued)

Gross carrying amount (continued)

	2021				2020			
	Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000	12-month AED'000	Lifetime AED'000	Lifetime AED'000	Total AED'000
Off-balance sheet items								
At 1 January	**49,113,388**	**4,258,429**	**2,381,713**	**55,753,530**	55,481,252	3,250,260	-	58,731,512
Transfers								
Transfer from Stage 1 to Stage 2	**(3,809,733)**	**3,809,733**	**-**	**-**	(2,124,307)	2,124,307	-	-
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(2,334,330)	-	2,334,330	-
Transfer from Stage 2 to Stage 3	**-**	**(16,140)**	**16,140**	**-**	-	(235,353)	235,353	-
Transfer from Stage 3 to Stage 2	**-**	**-**	**-**	**-**	-	1,127	(1,127)	-
Transfer from Stage 2 to Stage 1	**182,400**	**(182,400)**	**-**	**-**	179,362	(179,362)	-	-
New financial assets originated	**20,878,779**	**-**	**-**	**20,878,779**	17,717,819	-	-	17,717,819
Repayment and other movements	**(16,244,662)**	**(1,788,534)**	**(1,156,766)**	**(19,189,962)**	(19,806,408)	(702,550)	(186,843)	(20,695,801)
At 31 December	**50,120,172**	**6,081,088**	**1,241,087**	**57,442,347**	49,113,388	4,258,429	2,381,713	55,753,530

43 Risk management (continued)

Write-off policy

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

Modification of financial assets

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

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

Operational risk management

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

43 Risk management (continued)

Operational Risk Governance

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

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

Operational risk management follows three lines of defence model;

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

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

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

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

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

Operational Risk Appetite

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

43 Risk management (continued)

Operational Risk Management Framework

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

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

43 Risk management (continued)

Incident management

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

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

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

Market Risk Management

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

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

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

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

43 Risk management (continued)

Market risk management (continued)

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

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

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

As of 31 December 2021 the 99% 1-day VaR was estimated at USD 1.62 million (31 December 2020: USD 1.76 million) for the bank wide market risk positions (stemming mainly from proprietary trading in interest rates products, equities and FX net open position). The bank's VaR model considers FX risk in all currencies, including GCC pegged currencies except USD and AED.

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

a. Counterparty Credit Risk

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

Pre-Settlement Risk

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

43 Risk management (continued)

Market risk management (continued)

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

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

Libor transition

The Group is actively preparing for the transition to Alternative Reference Rates (ARR) under the supervision of a cross-functional working committee, which includes representatives from Risk, Finance, Technology, Legal, Marketing and relevant business units. The transition of LIBOR increases the execution and operational risk of the Group and the plan implemented by the Group for the transition reflects the risks associated. An external consultancy has been onboarded and the best recommended practices from ARR Working Groups in USA and UK are being implemented, as relevant to the Group.

The Group has conducted an impact assessment across operational, financial, and legal dimensions. The transition mechanism for all LIBOR-linked assets and liabilities has been established and necessary changes are being implemented: systems and processes have been updated, appropriate fallback provisions has been incorporated in LIBOR-linked contracts and internal and external LIBOR transition awareness programs have been introduced. The process of negotiation of revised impacted contracts with clients is underway.

43 Risk management (continued)

Libor transition (continued)

The Group intends to use the following ARR for its floating rate assets and liabilities:

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

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

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

Financial instruments impacted by IBOR reform

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

43 Risk management (continued)

Libor transition (continued)

A significant majority of exposures impacted by the LIBOR Transition reference USD LIBOR. These are summarized in the table below. None of these instruments had been transitioned to an Alternative Reference Rate (SOFR) as at 31 December 2021.

	31 December 2021
	AED'000
Non-derivative financial assets	**30,914,338**
Deposits and balances due from banks	4,911,550
Other financial assets measured at fair value	277,224
Other financial assets measured at amortized cost	-
Loans and advances measured at amortized cost	25,535,862
Other assets	189,702
Non-derivative financial liabilities	**2,076,861**
Medium term loans	2,076,861
Derivatives[2]	**30,695,829**
Cross currency swap	1,239,919
Equity swap	278,683
Interest rate swap	29,039,475
Margin	128,555
Total return swap	9,197

As at 31 December 2021, the Group did not hold any off-balance sheet commitments and financial guarantees linked to LIBOR. In addition, as at 31 December 2021 the Group did not have significant exposure to non-USD LIBOR-linked financial instruments. All such exposures will either be transitioned to ARR or will be closed by 1 January 2022.

Hedge accounting

As at 31 December 2021 and 2020, the Group did not hold any LIBOR-linked hedging instruments.

[2] Represents 'Notional' value of derivative contracts

43 Risk management (continued)

Interest rate risk management

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

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

The impact of 50 basis points sudden movement in benchmark interest rate on net interest income over a 12 months period as at 31 December 2021 would be a decrease in net interest income by -3.5% (in case of decrease of interest rates) and would have been an increase in net interest income by 6.6% (in case of increase of interest rates) [31 December 2020: -4.0% and +3.5%] respectively.

During the year ended 31 December 2021, the effective interest rate on due from banks and certificates of deposits with central banks was 1.2% (31 December 2020: 1.4%), on loans and advances measured at amortised cost 3.6% (31 December 2020: 3.9%), on customers' deposits 1.0% (31 December 2020: 1.6%) and on due to banks (including repurchase agreements) 0.6% (31 December 2020: 1.1%).

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

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis:

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2021							
Assets							
Cash and balances with central banks	7,831,318	-	-	-	-	9,676,433	17,507,751
Deposits and balances due from banks	15,576,629	6,116,818	3,778,812	621,417	-	2,711,419	28,805,095
Other financial assets measured at fair value	3,636,168	1,327,272	4,578,534	653,687	4,722,342	1,523,120	16,441,123
Other financial assets measured at amortised cost	1,820,947	538,198	1,114,614	3,409,710	3,394,355	-	10,277,824
Loans and advances measured at amortised cost	51,737,556	4,031,722	1,732,799	2,684,262	5,135,684	1,110,547	66,432,570
Islamic financing and investment products measured at amortised cost	9,716,335	697,368	217,238	681,314	2,173,775	1,567,424	15,053,454
Acceptances	-	-	-	-	-	14,340,671	14,340,671
Other assets	-	-	-	-	-	3,290,085	3,290,085
Reinsurance contract assets	-	-	-	-	-	2,699,966	2,699,966
Investment in associate	-	-	-	-	-	34,809	34,809
Investment properties	-	-	-	-	-	462,829	462,829
Property and equipment	-	-	-	-	-	1,426,096	1,426,096
Intangible assets	-	-	-	-	-	281,336	281,336
Total assets	90,318,953	12,711,378	11,421,997	8,050,390	15,426,156	39,124,735	177,053,609

Notes to the consolidated financial statements for the year ended 31 December 2021 (continued)

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2021	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
Liabilities and equity							
Deposits and balances due to banks	6,488,833	1,502,705	2,143,798	3,000	-	9,428,150	19,566,486
Repurchase agreements with banks	1,418,214	26,510	782,459	501,964	-	-	2,729,147
Customers' deposits	23,646,224	7,181,847	8,953,601	2,109,895	278,037	44,981,298	87,150,902
Islamic customers' deposits	2,328,279	4,474,283	4,264,002	27,402	-	3,238,121	14,332,087
Acceptances						14,340,671	14,340,671
Other liabilities	-	-	-	-	-	6,028,308	6,028,308
Medium-term loans	472,660	80,806	1,054,812	5,140,175	40,906	525,760	7,315,119
Insurance contract liabilities	-	-	-	-	-	4,566,602	4,566,602
Equity attributable to shareholders of the Parent	-	-	-	-	-	20,228,225	20,228,225
Non-controlling interest	-	-	-	-	-	796,062	796,062
Total liabilities and equity	34,354,210	13,266,151	17,198,672	7,782,436	318,943	104,133,197	177,053,609
On balance sheet gap	54,089,042	(554,773)	(5,776,675)	267,954	15,107,282	(63,132,830)	-
Off balance sheet gap	(26,180)	-	26,180	-	-	-	-
Cumulative interest rate sensitivity gap	54,062,862	53,508,090	47,757,594	48,025,548	63,132,830	-	-

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	Over 5 years AED'000	Non-interest bearing items AED'000	Total AED'000
31 December 2020							
Assets							
Cash and balances with central banks	8,392,028	2,000,000	2,000,000	-	-	5,549,913	17,941,941
Deposits and balances due from banks	16,228,495	4,158,303	3,804,056	389,681	138,967	3,519,528	28,239,030
Other financial assets measured at fair value	581,385	37,170	2,547,845	937,238	3,190,815	1,144,650	8,439,103
Other financial assets measured at amortised cost	411,012	1,218,138	2,397,772	3,627,965	3,345,767	-	11,000,654
Loans and advances measured at amortised cost	44,590,992	2,244,840	1,873,136	3,433,364	3,919,763	1,224,316	57,286,411
Islamic financing and investment products measured at amortised cost	11,757,598	233,106	169,835	438,141	1,091,407	556,256	14,246,343
Acceptances	-	-	-	-	-	12,767,461	12,767,461
Other assets	-	-	-	-	-	3,478,455	3,478,455
Reinsurance contract assets	-	-	-	-	-	2,891,920	2,891,920
Investment in associate	-	-	-	-	-	20,996	20,996
Investment properties	-	-	-	-	-	449,715	449,715
Property and equipment	-	-	-	-	-	1,466,769	1,466,769
Intangible assets	-	-	-	-	-	294,442	294,442
Total assets	81,961,510	9,891,557	12,792,644	8,826,389	11,686,719	33,364,421	158,523,240

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

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

43 Risk management (continued)

Currency risk management

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

	31 December 2021			31 December 2020		
	Net spot position AED'000	**Net Forward position AED'000**	**Net Position AED'000**	Net spot position AED'000	Net Forward position AED'000	Net Position AED'000
U.S. Dollars	**8,387,427**	**(11,162,514)**	**(2,775,087)**	5,006,141	(4,498,538)	507,603
Qatari Riyals	**50,218**	**(210,715)**	**(160,497)**	(162,513)	(12,400)	(174,913)
Pound Sterling	**(782,678)**	**793,643**	**10,965**	1,310,671	(1,328,842)	(18,171)
Euro	**(1,393,027)**	**1,418,931**	**25,904**	324,346	(302,379)	21,967
Bahrain Dinar	**507,291**	**(630,199)**	**(122,908)**	159,738	(133,993)	25,745
Saudi Riyal	**(6,342,158)**	**6,293,524**	**(48,634)**	(5,621,881)	5,632,255	10,374
Japanese Yen	**(1,081,437)**	**1,090,335**	**8,898**	(1,259,975)	1,268,436	8,461
Swiss Francs	**533**	**2**	**535**	3,550	(884)	2,666
Kuwaiti Dinar	**(2,533)**	**(180,679)**	**(183,212)**	(142,092)	(38,596)	(180,688)
Chinese Yuan	**(1,363,960)**	**1,427,630**	**63,670**	(1,348,336)	1,351,924	3,588
Other	**319,272**	**118,028**	**437,300**	(173,397)	(62,326)	(235,723)
Total	**(1,701,052)**	**(1,042,014)**	**(2,743,066)**	(1,903,748)	1,874,657	(29,091)

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

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

Liquidity risk management

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

43 Risk management (continued)

Liquidity risk management (continued)

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

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

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

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

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

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

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

43 Risk management (continued)

Liquidity risk management (continued)

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

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

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

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

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

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

c) Gap limits

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

d) Liquidity risk management over different time horizons and currencies

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

43 Risk management (continued)

Liquidity risk management (continued)

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

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

The Group has historically relied on customer deposits for its funding needs. Over the years, the Group has successfully introduced various cash management products and retail savings' schemes which have enabled it to mobilise low cost, broad based deposits. In order to diversify the funding sources, a Euro Medium Term Notes program was launched in 2004 and, as of 31 December 2021 has an outstanding balance of AED 7.32 billion (31 December 2020: AED 9.62 billion) [Note 19] in medium-term loans. The Bank also established Certificate of Deposit (CD) programmes through its London branch in 2014 and its Hong Kong Branch in 2018.

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

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

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

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

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

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

43 Risk management (continued)

Liquidity risk management (continued)

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

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

COVID-19 impact

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

The CBUAE has adopted a proactive approach in order to ensure flow of credit to the economy, especially to sectors severely impacted by the COVID-19 crisis. The CBUAE announced a comprehensive Targeted Economic Support Scheme ("TESS") effective from 15 March 2020, allowing UAE Banks to access zero cost funding and pass on the benefit to their clients through Principal and Interest deferrals. CBUAE also reduced Reserve Requirement against CASA balances, providing an immediate boost to UAE Banks' liquidity. Given the increase in economic activity and stability of the financial system, CBUAE is starting a gradual and well calibrated withdrawal of some of the TESS facilities, which is scheduled to be concluded by mid of 2022.

The combination of above measures by the CBUAE along with prudent liquidity management by the Bank, has helped to ensure that the Bank is able to meet its clients' banking services requirements effectively and without disruption.

43 Risk management (continued)

Liquidity risk management (continued)

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

Maturity profile:

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

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

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

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

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

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

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

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

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

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

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

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

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligations as at 31 December 2020.

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

43 Risk management (continued)

Insurance Risk

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

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

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

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

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

43 Risk management (continued)

Insurance Risk (continued)

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

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

The distribution of insurance contract liabilities and reinsurance contract assets as at 31 December 2021 and 31 December 2020 is as follows:

	2021 **AED'000**	2020 AED'000
Insurance contract liabilities		
UAE	**4,210,037**	4,382,374
Other GCC and Middle East countries	**356,565**	365,405
	4,566,602	4,747,779
Reinsurance contract assets		
UAE	**2,438,103**	2,623,959
Other GCC and Middle East countries	**261,863**	267,961
	2,699,966	2,891,920

Frequency and Severity of Claims

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

43 Risk management (continued)

Insurance Risk (continued)

Sources of Uncertainty in the Estimation of Future Claim Payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims' exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established. The amount of insurance claims is in certain cases sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort.
Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Assuming all the other factors remained constant; an impact of an increase / decrease of 1% in claims will result in corresponding increase/ decrease in net claims incurred by AED 15.5 million (2020: AED 16 million).

COVID-19 impact on insurance subsidiary of the Group

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

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

The subsidiary mainly noticed an increase in Health Care claims and Business Interruption claims due to COVID-19. The subsidiary is monitoring the loss experience and has appropriately enhanced its technical reserves as at 31 December 2021. The impact on life insurance was minimal as of the year end.

43 Risk management (continued)

Insurance Risk (continued)

COVID-19 impact on insurance subsidiary of the Group

Since 2019, the subsidiary has developed a robust risk appetite framework and capital thresholds based on the pandemic risk and other risks stress scenarios. The Group updated the stress scenarios for the year ended 31 December 2021. Having considered the impact of COVID-19, the subsidiary conducts more regular reviews on its reinsurers in relation to the counterparty credit ratings, financial metrics, credit outlook and changes to their structures, if any. Also, the subsidiary has updated its reinsurer security list in order to address the impact of COVID-19. The current security list has more than 90% of “A” rated reinsurance securities.

In parallel, the subsidiary continues to have a robust collection and credit control process. Further the subsidiary’s continuous adoption of automation led enhancements and developments to strengthen the processes and credit controls have resulted in an efficient receivable management. Hence, despite the uncertain economic conditions, the subsidiary continued to have robust collections during the year ended 31 December 2021. The measures taken have contributed to controlled and healthy receivable book during the year ended 31 December 2021.

Similarly, the subsidiary’s investment portfolio measured at amortised cost has been assessed using a robust ECL model with updated inputs as of the reporting date and based on the results, the Group had taken adequate provisions for impairment losses.

The subsidiary assessed the unquoted equity investments portfolio against the latest available inputs. Accordingly, the subsidiary believes that the fair values reported for unquoted equity investments reflect the current market conditions as of 31 December 2021.

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

43 Risk management (continued)

Compliance Risk

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

In 2015, the Bank became aware that certain historical US dollar payment processing activities involving Sudan may have potentially breached US sanction laws in effect at the time. The Bank proactively cooperated with the UAE and the US regulators and appointed external legal advisors to assist in the review of these transactions, which occurred prior to March 2009, including compliance with US sanction laws as well as its own compliance processes. In 2018, the Bank formally submitted the findings of the review to the regulators in both the UAE and the US.

Certain US agencies and regulators concluded their reviews without levying any penalties. During the year ended 31 December 2021 the Bank reached a settlement with the Office of Foreign Assets Control (OFAC), the New York State Department of Financial Services (DFS) and the Federal Reserve Board of Governors (FRB). As part of the settlement the Bank agreed to pay $100 million to the DFS which is fully provided for in these consolidated financial statements.

Dialogue with a US agency on the same matter is ongoing and, based on legal advice, it is premature at this stage to determine if the Bank is likely to be subject to any further penalty or the quantum of the penalty. The Group, on a continuous basis, identifies and assesses such risks and recognizes provisions, in consultation with its legal counsel, in accordance with the accounting policy for provisions as disclosed in note 3.

43 Risk management (continued)

Fair value measurements

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

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

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

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

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

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

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2020.

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

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

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	Fair value as at			Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable input	Relationship of unobservable inputs to fair value
	2021		2020				
	AED'000		AED'000				
Other financial assets measured at FVTPL							
Quoted debt investments	**257,064**		19,431	Level 1	Quoted bid prices in an active market	None	Not Applicable
Quoted equity investments	**37,668**		6,719	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**1,291,065**		796,240	Level 2	Based on the recent similar transaction in market	None	Not Applicable
Mutual and other funds	**686,534**		629,865	Level 2	Quoted prices in secondary market.	None	Not Applicable
Unquoted equity investments	**1,113**		1,112	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.	Net assets value	Higher the net assets value of the investees, higher the fair value.
	2,273,444		1,453,367				

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	**Fair value as at**			**Fair value hierarchy**	**Valuation techniques and key inputs**	**Significant unobservable input**	**Relationship of unobservable inputs to fair value**
	2021		2020				
	AED'000		AED'000				
Other financial assets measured at FVTOCI							
Quoted equity investments	**577,857**		459,821	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted debt investments	**559,930**		560,592	Level 3	Based on the recent similar transaction in market	None	Not Applicable
Quoted debt investments	**12,920,789**		5,910,374	Level 1	Quoted bid prices in an active market	None	Not Applicable
Unquoted equity investments	**53,589**		54,949	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.	1. Hair cut for comparable transactions. 2. Interest rate	1. Changes in hair cut for comparable sales transactions will directly impact fair value. 2. Interest rate changes in DCF will directly impact the fair valuation calculation.
Mutual and other funds	**55,514**		-	Level 2	Quoted prices in secondary market.	None	Not Applicable
	14,167,679		6,985,736				
	16,441,123		8,439,103				

43 Risk management (continued)

Fair value measurements (continued)

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

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

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

	2021 AED'000	2020 AED'000
At 1 January	**1,112**	245
Purchases	**-**	2,505
Disposals	**-**	(1,646)
Change in fair value	**1**	8
At 31 December	**1,113**	1,112

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

	2021 AED'000	2020 AED'000
At 1 January	**615,541**	625,286
Purchases	**7,933**	-
Disposals/matured	**(1,118)**	(10,215)
Change in fair value	**(8,837)**	470
At 31 December	**613,519**	615,541

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

43 Risk management (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

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

	Carrying amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2021					
Financial assets:					
Other financial assets measured at amortised cost	**10,302,332**	**7,142,239**	**1,944,036**	**1,385,285**	**10,471,560**
31 December 2020					
Financial assets:					
Other financial assets measured at amortised cost	11,000,654	7,600,395	1,556,552	2,169,181	11,326,128

	Carrying Amount	**Fair value**			
		Level 1	**Level 2**	**Level 3**	**Total**
	AED'000	AED'000	AED'000	AED'000	AED'000
31 December 2021					
Financial liabilities					
Medium-term notes	**7,315,119**	**5,259,890**	**-**	**2,070,100**	**7,329,990**
31 December 2020					
Financial liabilities					
Medium-term notes	9,616,042	5,558,668	-	4,133,034	9,691,702

43 Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 1% increase or decrease as at 31 December 2021 and 31 December 2020:

	Reflected in consolidated statement of profit or loss		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
31 December 2021				
Other financial assets measured at fair value	**22,734**	**(22,734)**	**141,677**	**(141,677)**
Derivatives	**6**	**(6)**	**585**	**(585)**
31 December 2020				
Other financial assets measured at fair value	14,534	(14,534)	69,857	(69,857)
Derivatives	1,560	(1,560)	636	(636)

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

44 Foreign restricted assets

Net assets equivalent to AED 218 million as at 31 December 2021 (31 December 2020: AED 213 million) maintained by certain branches of the Bank, operating outside the UAE, are subject to exchange control regulations of the countries in which these branches operate.

45 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2021.

46 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2021 were approved by the Board of Directors and authorised for issue on 31 January 2022.

Sustainability Report
FY 2021
Mashreq Bank

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1. Message from our Chairman

As Chairman of Mashreq, it is my pleasure to present to you Mashreq's 2021 Sustainability Report. Sustainability is intrinsically linked with Mashreq values just as culture and society are. Indeed, the three share such a connection that they can be construed as being one symbiotically linked entity, where actions in one field affect the other two as well.

This is certainly what Mashreq's 2021 Sustainability Report highlights by summarizing our notable ESG (Environment, Social & Governance) achievements for the financial year 2021. I further believe that the report is a validation of how we consistently rise to sustainability challenges and follow our commitment to generating greater value for our shareholders and ensuring sustainable practices in our businesses.

The disruption the COVID-19 pandemic brought about has also inadvertently exposed new opportunities in the worlds of finance and sustainability. This has challenged organizations to reevaluate how to conduct business as well as adopt and implement new technologies to better reflect the changing global attitudes towards the environment, work ethics and business models.

I am pleased to share that Mashreq's long-standing ethos of leading with innovation has ensured for us the honor of being one of UAE's first banks to confidently respond to this changed scenario and continue our aptly adjusted and upgraded services. Mashreq remains a stable institution that can be relied on by our stakeholders, and the strong growth and profitability we have achieved in this past year can attest to that fact. As growing internationalization has directly ensured that sustainability becomes inimical to redundancy, non-viability, and non-profitability, we at Mashreq have defined a comprehensive approach to identifying and managing ESG-related risks while seeking new opportunities. In fact, we have begun to embed environmental and social functions within our core strategic priorities. Though we are approaching this change in a balanced and realistic fashion, we realize that adopting sustainability is necessary and ultimately, a reality of economics post the COVID era. We aim to function responsibly and integrate sustainability in each of our segments as we follow our aim to achieve a unique identity as one of UAE's key sponsors of sustainability.

For the coming years, Mashreq would like to be pioneers in Environment, Social, and Governance parameters and set an example not just for the UAE but for the entire Middle East and for our valued customer's united by culture. We have already identified the government mechanisms and set policies and procedures in place and will now focus on capacity building to aid us in this endeavor. To this effect, we have started multiple new initiatives of which I am particularly pleased with the formation of our Sustainability Working Group in 2021, which consists of experts in the field and will help drive our sustainability program.

Finally, on behalf of Mashreq, I would like to express my gratitude towards all our employees, customers, partners, and other stakeholders without whom this new and positive direction towards sustainability could not have been achieved by us. It is due to your continuous support, commitment, and collective focus that we can continue our sustainability agenda and offer a positive contribution to the economy and for this I, on behalf of Mashreq Bank, thank you.

2. Message from our CEO

Mashreq's reputation as a people-first bank and being recognized as one of the world's greatest workplaces, is the validation of our history of leadership in serving our clients, employees, and community. This is because we at Mashreq are firmly of the opinion that responsible banking is the central requirement for the development of a dynamic, resilient, and prosperous society.

To this end, Mashreq has understood the necessity to embed corporate responsibility within all facets of our business and as CEO of Mashreq, I must say that fiscal 2021 has been a momentum build in this new direction we are heading for. We have successfully launched diverse interventions across our organization with the aim of committing to ESG disclosures and defining initiatives that will positively impact our environment, workforce, community, clients, as well as the wider UAE economy.

To reinforce our commitment in 2021, we further engaged our workforce through diverse learning & development initiatives. We achieved an impressive 168% increase in total training hours across our organization.

Along with these new enterprises we are also continuing to invest in uplifting local communities through socially responsible initiatives. We leveraged our partnerships with like-minded organizations to expand our reach and in 2021, we collected over AED 770,000 against our target of AED 756,530 to help vulnerable communities! But we at Mashreq are not content with that. We wish to establish ourselves as an industry leader in environmental sustainability, and so are committed to facilitating the transition to a low-carbon economy by taking definitive steps to minimize the environmental impact of our infrastructure and operations. To this effect, after the installation of energy-efficient infrastructure, I am proud to announce that Mashreq achieved energy savings of 1,229,000 kWh, and our recycling initiatives resulted in over 202,600 Kgs of recycled materials.

I credit these innovative measures to the overall shift of our corporate focus to the perspective of sustainability and generating long term value for our clients, which would not have been possible without the formation of Mashreq's very first Sustainability Working Group in 2021. Their expertise will be channelized in integrating business and sustainability priorities. With this, we are optimistic about our future and truly believe that we are in a privileged position to continue accelerating our sustainability agenda. Mashreq recognizes that the banking and financial sector lie at the forefront of decarbonizing economies, and we plan to expand our efforts by spearheading green finance instruments such as green bonds, blue bonds, and green trade financing.

This report serves as a testament to our commitment to our relentless drive towards the environment and to sustainability. As we move forward, we aim to continually create value by building on these efforts, contributing to important global issues, and laying the groundwork for a more inclusive and sustainable future.

3. About this Report

Mashreq's values of integrity and social responsibility have driven our adoption of ethical and sustainable business practices. This commitment is reflected in our continued improvements in transparency through periodic communication and engagement with our stakeholders. In line with this, we published our very first sustainability report in FY2020, and are now pleased to present the second edition disclosing credible information on our environmental, social and governance performance for the financial year 2021.

This report has been prepared in alignment with the GRI 2020 core Standards and the Dubai Financial Market ESG disclosure requirements. The report further outlines our alignment with the United Nations Sustainable Development Goals. It covers activities carried out during the financial year beginning January to December 2021 and includes information about Mashreq's performance for its offices and activities within the UAE.

The UAE dirham is used to report monetary values throughout the report unless stated otherwise.

Assurance

We followed an internal assurance process wherein all internal stakeholders reviewed and approved the contents related to their respective departments. We chose not to obtain external assurance for our Sustainability Report this year.

For any questions or comments about this report please address them to our Sustainability team on sustainability@mashreq.com

Report Boundary

In this report, we have defined boundaries, based on where the impacts of a specific material topic occur. Direct impacts are within the scope of "Corporate boundary" and Indirect impacts are within the scope of "Operational boundary". The management approach for each material topic is specified under these boundaries.

- Corporate boundary (Impacts that are internal to the organization)
  - "Corporate boundary" denotes the direct impacts from Mashreq's activities over which the management has complete control. It includes impacts that arise from operating the banking facilities and managing staff
- Operational boundary (Impacts that are external to the organization)
  - "Operational boundary" refers to the indirect impacts occurring from Mashreq's actions which include its lending and financing services, and which are not under the direct control of the bank's management. It also includes impacts from the actions of Mashreq's clients.

4. About Mashreq Bank

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 the leading financial institution 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 2021, our combined banking services served over 750,000 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 2021, we received several awards, including the 'Most Innovative Private Bank for Digital Client Solutions UAE' from Global Finance, and the 'Most Innovative Islamic Banking Solutions Provider – UAE' from World Business awards.

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.

Corporate and Investment Banking	International Banking	Treasury and Capital Markets	Retail Banking
• Energy, Services & Manufacturing • Trading • Contracting Finance • Real Estate • NBFI/Financial Institutions Globally • Global Transaction Services • Corporate Finance • Islamic Banking products	• Wholesale and Investment Banking • Treasury and Investment Products • Personal Banking • Islamic Banking Products	• FX and Investments • Rates & Structured Solutions • Mashreq Capital • Islamic Banking Products • Equity Derivatives & Institutional Sales • Mashreq Securities • Investments	• Personal Banking • SME • Mashreq Gold • Private Banking • Payments • Islamic Banking Products • Distribution • Alternate Channels • Direct Sales • Direct Banking Centre • Mashreq NEO (Digital Banking)

Vision, Mission, and Values

Our Vision is to be the region's most progressive bank, enabling innovative possibilities for our clients, colleagues, and communities.

Our Mission helps us foster long-lasting relations with our stakeholders by:

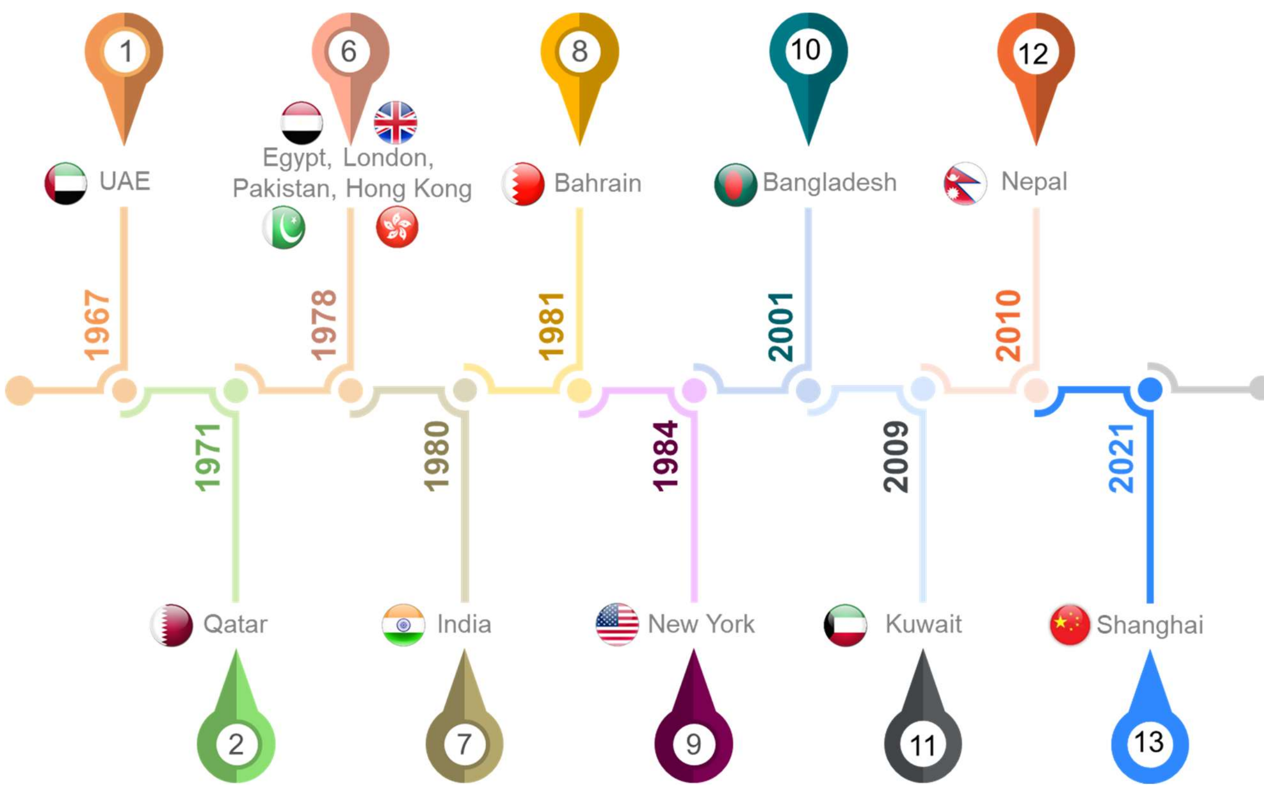
- Delivering superior client experience

- Leading with innovation
- Treating colleagues with dignity and fairness
- Pursuing opportunities that grow value for shareholders
- Actively contributing to the community through responsible banking
- Being the best place to work

Our Values reflect Mashreq's true spirit

- Socially responsible
- Passionate about clients
- Innovative
- Respect for colleagues
- Integrity
- Transparent

Our Heritage



Our Ownership Structure

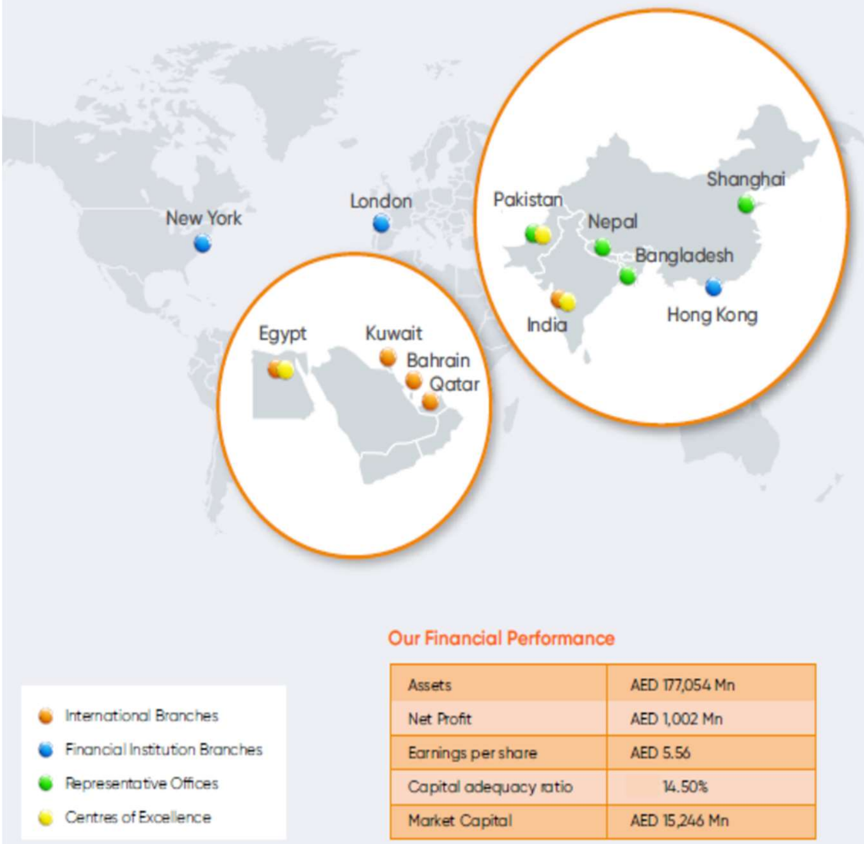
Our strong and stable ownership structure is supported by our institutional shareholders who have been associated with us since our inception.

Saif Al Ghurair Investment LLC	39.5%
Abdulla Ahmed Al Ghurair Investment Company	31.1%
Masar Investments	12.7%
Majid Capital	3.6%
National Cement Company	3.5%
Other Shareholders	9.6%

Our Worldwide Presence

Our Top Tier Ratings

CREDIT RATING AGENCY	LONG TERM	SHORT TERM	OUTLOOK
Fitch	A	F1	Stable
Standard & Poor's	A-	A-2	Stable
Moodys	Baa1	P-2	Stable
Capital Intelligence	A	A1	Stable



Our Financial Performance

Assets	AED 177,054 Mn
Net Profit	AED 1,002 Mn
Earnings per share	AED 5.56
Capital adequacy ratio	14.50%
Market Capital	AED 15,246 Mn

2021 Sustainability at a Glance

- Energy savings of 1,229,000 kWh
- 202,547 Kgs of waste and 151 Kgs of plastic recycled
- Zero cases of data security breaches
- Zero corruption-related public legal cases against Mashreq
- Zero corruption-related cases against our employees
- 79% of our procurement is sourced through local entities
- Supplier Charter distributed to 266 new vendors
- Formation of our first Sustainability Working Group
- 77,034 hours of training provided to employees across levels

- Raised AED 770,576 directed towards uplifting vulnerable communities

5. Our Approach to Identifying Material Issues

In 2021, Mashreq Bank conducted its first comprehensive materiality assessment to determine the environmental, social, and governance (ESG) topics most material to the bank. As a foundation of our sustainability strategy, the assessment enables us to maximize long-term impact and value creation.

Our Material Topics

The assessment involved 3 primary steps, namely identification, prioritization, and validation. The process was initiated with intensive research and peer benchmarking to identify ESG issues most relevant to the banking industry. We also applied frameworks and standards such as GRI, SASB's sector and industrial level, UN PRI and S&P Global to guide the benchmarking process. To ensure that there was no data overlaps a standard mutually exclusive collectively exhaustive (MECE) exercise was carried out. This exercise yielded 41 "potential material topics" for Mashreq bank.

Engaging our stakeholders

At Mashreq Bank, we recognize and value our stakeholders as key pillars of our organization's success and therefore strive to establish committed relationships through consistent engagement. This allows us to obtain valuable insights that govern our ESG strategy and the issues we prioritise for action.

The prioritization process relied on inputs from our stakeholders, both internal and external. Multiple modes of engagement were utilized, such as online surveys, focus group discussions, and one on one interviews. The process covered a total of 63 internal stakeholders and 40 external stakeholders across different groups. Through the engagement, stakeholders were asked to assess and rank each potential material topic on the perceived level of importance relative to Mashreq's business. As an employee-centric bank, our interactive methodology encouraged active engagement, and our employees displayed immense enthusiasm in participating and contributing to our first materiality exercise. We finally conducted intensive consultations through one-on-one interviews with the bank's top management. This helped us understand their perspectives on the bank's approach to ESG and ensured that the identified material topics capture Mashreq's long-term sustainability values and vision. Our all-rounded and multifaceted approach allowed us to obtain valuable feedback from diverse sources, thereby contributing to the comprehensiveness of our 2021 assessment.

Stakeholder	Engagement Channels
Customers	• Branches • Digital channels and social media • Relationship Managers • Customer Surveys
Employees	• Employee Engagement • Rewards and recognition programs • Training and Development Programs • Employee surveys
Suppliers	• Bidding and tendering • Procurement Policy and supplier charter • Online Surveys
Shareholders	• Board Meetings

	• Public Reports • Online Surveys
NGOs	• Online surveys

Based on the responses received and analysis done, we narrowed down on 14 material topics facing our business.

Our Focus Areas

Environment	Energy Management
	Greenhouse Gas Emissions
	Water Management
	Waste Management
Social	Talent Attraction and Retention
	Diversity and Inclusion
	Learning and Development
	Human Rights
	Non-discrimination
	Occupational Health and Safety
	Community Investment and Socio-economic development
Governance	Sustainability Governance
	Business Ethics, Policies, and Anti-corruption
	Risk Management and Compliance

6. Corporate Governance & Risk Management

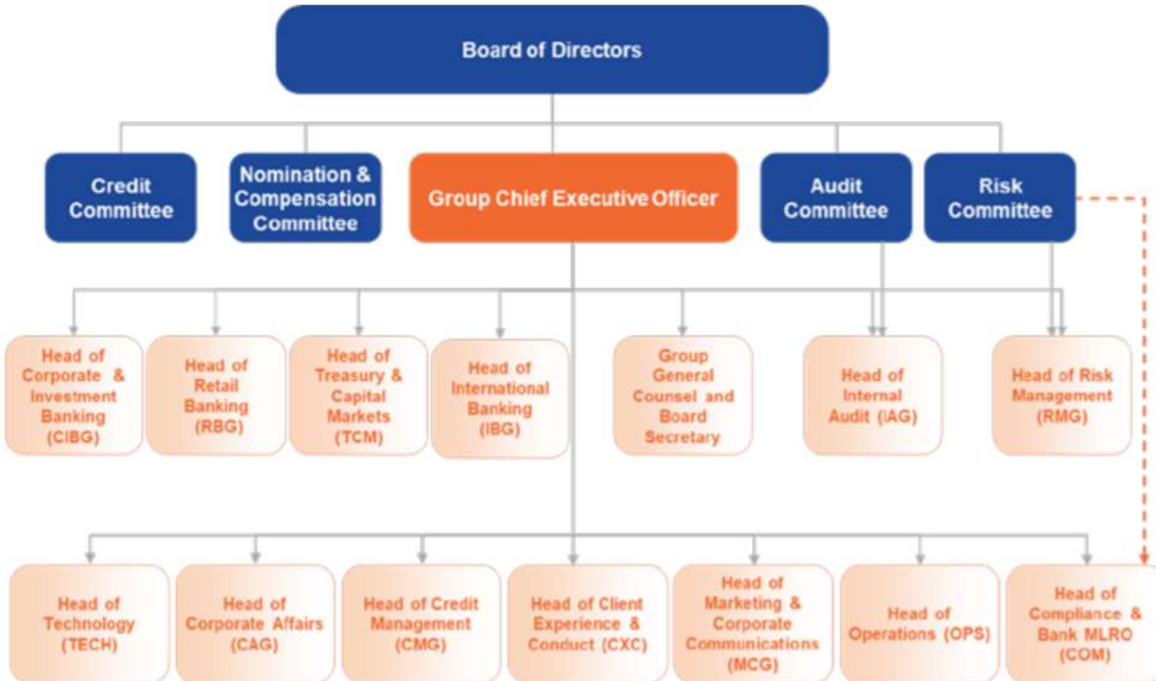
As the backbone of our organization, corporate governance is one of the three fundamental cornerstones of our ESG strategy. Our governance structure incorporates our core values and plays a vital role in shaping our culture, regulatory compliance, fostering relations with internal and external stakeholders, and improving transparency and disclosures. Through this, we now strive to surpass the greatest standards for ethical and effective decision making while exceeding client expectations and providing long-term value to our shareholders.

Governing Bodies and Committees

At Mashreq, all powers of corporate governance are vested in the Board of Directors. They are responsible to set the company's strategic plans, enable leadership to execute these plans, supervise the management, protect the rights and interests of minority shareholders, and report to shareholders on their stewardship. The Board also leads the bank's senior management and envoys administrative, financial, and operational tasks after appropriately considering the track record, experience, and positions of managers.

The Board is assisted by 4 standing Committees who, along with the CEO, execute various oversight responsibilities.

Committee	Functions
Audit Committee	The Audit Committee meets 4 times a year. Its main functions include reviewing Mashreq's financial reporting process and the quarterly and annual financial reports; overseeing the activities of internal and external auditors; providing external auditors with details regarding the audit processes, key findings, and corrective measures taken; meeting the head of the internal audit team to review their scope of work; and reviewing reports from regulators.
Credit Committee	The Credit Committee meets when necessary and is primarily responsible for assisting the Board in approving changes in the credit strategy and framework.
Risk Committee	The Risk Committee's main function is to supervise risk management responsibilities, including the identification, analysis, assessment, treatment, monitoring, and communication of risks arising from the bank's processes.
Nomination and Compensation Committee	The Nomination and Compensation Committee meets at least once a year. Its main functions include reviewing and revising the annual increments and bonuses that are recommended by management.



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 and are appointed 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 FY2021, it met 5 times.

Board members are usually paid a fixed annual fee. In 2021, there was no payment done. In FY2021, the ratio of CEO total compensation to median FTE total compensation was 15:1. To enhance transparency in both financial and non-financial disclosures communicated to our stakeholders, this metric is reported in regulatory filings.

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.

Sub-Committee	Function
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.
Regulatory Compliance Committee	Meets every alternate month 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.

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 line with this, we are thrilled to announce that in FY2021, we formed Mashreq's very first internal Sustainability Working Group. The group comprises of:

Name	Focus Area
Aboobakkar Ali	Corporate Secretariat Governance
Ashok Gopal	People development and Employee Well-being
Daniel Bateman	Asset & Property
Hensa Bhatia	Organization Development & Employee Well-being
Husam Abdel Al	Origination, Investment Banking
Maram Habash	Client Experience
Nauman Ali Khan	Enterprise Risk Management
Shereen Rehiem	Operations
Suad Merchant	Marketing and Brand Strategy
Syed Aamer Asif	Investments
Thomas K Jacob	Strategy & Investor Relations

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.

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 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 FY2021, 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 Mashreq takes while managing information.

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.

e) Whistle-blowing Policy – Mashreq maintains robust procedures that provide 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 noncompliance 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, we ask our suppliers to sign the supplier charter before initiating business engagements. The charter covers all relevant topics pertaining to health and safety standards, diversity and inclusion, anti-discrimination, and environmental protection and conservation. In FY2021, 266 new vendors were obliged to sign 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 have also begun 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.

g) 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 Fundamental Credit Review 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.

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 trading while ensuring that the interests of our customers, employees, and shareholders are aligned.

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.

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.

With respect to compliance, we plan to strengthen monitoring in FY2022 by assessing the governance at Board level and senior management by asking members to participate in self-assessment exercises which will be submitted and reviewed collectively. We also plan to initiate annual compliance self-awareness online surveys in areas of data privacy, anti-corruption, and internal controls. Our Shari'ah supervision committee helps us comply with the Shari'ah business etiquettes while overseeing and advising us at each stage of our Islamic product development market.

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 level 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 –

7. Our People

At Mashreq, our strength lies in our people. Our employees are a representation of our purpose and undoubtedly, an instrumental driver of our progress and development. It is this very purpose that has crafted and influenced our people-first culture over a history spanning more than 50 years. Our ambition is now to exceed social standards by investing in further strengthening our workforce and community initiatives to maximize our impact.

Talent Attraction and Retention

Our rich history of expansion, current accomplishments, and vision for further development have been steered by our invaluable human resources. Therefore, we are committed to creating a positive and inclusive workforce by delivering on employee value propositions. Through our approach and diverse interventions, some of which include creation of inclusive employment opportunities, attractive compensation and benefits packages, and exceptional training and development offerings, we have consistently been awarded by Gallup for being amongst the world’s greatest workplaces. This approach helps us attract, recruit, develop, motivate, and retain high-quality talent with the skills and behaviors necessary to drive outstanding performance and long-term success.

UAE Workforce Overview	2019		2020		2021	
	Number	% Of Total	Number	% Of Total	Number	% Of Total
Total Workforce	3,076	100%	2,788	100%	2,392	100%
Full-time Employees	3,072	99.87%	2,785	99.89%	2,303	100%
Part-time Employees	4	0.13%	3	0.11%	0	0%
Employees on an indefinite or permanent contract	3,076	100%	2,788	100%	2,303	96.27%
Contractors and/or consultants	0	0%	0	0%	89	3.73%

UAE Workforce Overview	Contract Type	
	Permanent	Temporary
UAE Workforce Total	2,303	89
UAE Workforce by Gender		
Male	1,560	31
Female	743	58
UAE Workforce by Region		
Dubai	2186	89

Abu Dhabi	69	0
Sharjah	33	0
Ajman	13	0
Al Ain	2	0

In FY2021, Mashreq Bank hired a total of 528 employees. The table below depicts the breakdown of new hires on the basis of gender and age group.

Total New Hires	2021
New Employees by Gender	
Male	332
Female	196
New Employees by Age	
Under 25	58
25-40	323
40-50	129
50-60	18

In the same year, 822 employees left Mashreq Bank. The percentage workforce turnover was 34%. The table below depicts the breakdown of employee turnover based on gender and age group.

Employee Turnover	2021
Turnover by Gender	
Male	557
Female	265
Turnover by Age	
Under 25	9
25-40	558
40-50	207
50-60	42
Over 60	6
Total Employee Turnover %	34%

Employment patterns, including new hires and turnover, resulted in changes in our total workforce. This resulted in a 17.3% reduction in full-time employees. In FY2021, all employees were full-time, and we onboarded 89 new contractors/consultants.

Employment Type	2020	2021
Full Time	2,785	2,303
Part Time	3	0
Contractors/Consultants	0	89

Diversity and Inclusion

As an equal opportunity employer, we are committed to supporting all forms of diversity by creating a culture based on equality, dignity, and respect for all. Our employees belong to varied ethnicities, genders, languages, age groups, experiences, mental and physical capabilities, and thinking styles. Our workplace diversity has greatly aided us in widening our talent pool, foster innovation, increase engagement, and boost productivity. This has directly impacted our business results in terms of enabling exceptional customer experiences.

With 2,392 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 FY2021, Emirati nationals represented 20.4% of our total workforce.

	2019	2020	2021
Number of Nationalities	64	60	58

To encourage greater gender diversity, we have introduced flexible working hours, work-from-home arrangements, and set up a 'New Mother's Room' for our female employees. Through efforts to promote female inclusion, empowerment, and create fair opportunities that enable progression, we have seen a steady rise in female representation across our workforce. As of 2021, we are proud that women compromise 33.5% of the employees across the group. We now aim to attain a 50:50 gender ratio and double the number of women in senior management roles over a two -year timeframe.

Hierarchy	Male		Female	
	Number	% of Total	Number	% of Total
Entry Level	560	63%	333	37%
Middle Management	655	65%	355	35%
Senior Management	340	85%	61	15%
Board of Directors	7	100%	0	0%
Total Enterprise	1562	-	749	-

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 FY2021, we evaluated the median compensation and identified the male to female compensation ratio as 1.06:1.

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.

Learning & Development

As stated previously, our people are our most valuable asset and therefore we are dedicated to creating an environment where they can learn, grow, and thrive. Over the years, we have consistently invested our employees' professional growth by providing a host of training and development programs. Performance reviews and performance incentives are an integral component of our employee offerings. During the defined reporting period, 98% of all eligible employees received both a mid-year and annual performance review.

At Mashreq, our training programs adopt a multi-channel learning approach. This includes a combination of classroom, on-the-job, and online learning. We have designed specialized induction programs for new-joiners, which are supported by on-the-job training and buddy-system programs to help new hires fit into their roles and facilitate job familiarization. Our programs cover a broad range of skills, from Technical Training on systems, products, policies, and regulatory guidelines, to Leadership and Personal Development programs that develop soft skills. Self-study online courses help us educate our employees on topics such as Digital Skills, systems, ORM, Information Security Awareness, Fraud Awareness, Compliance etc. In addition, employees are also provided access to third party content repositories such as LinkedIn Learning, Intuition, Franklin Covey, IBM Digital Nation, Forrester and Microsoft Learn, and thus are encouraged to enhance their knowledge and skills at their own pace. Together, these programs help employees learn skills and behaviors that enable them to succeed in their respective roles.

With a commitment to developing local talent, we simultaneously invest in supporting the career opportunities and progression of UAE Nationals. In line with this, we have designed programs targeted towards our UAE candidates. Some of these include Individual Development Plans and On-job training, the ACE Programme to develop Relationship Managers for Corporate Banking, and Qadat Al Mustaqbal to develop UAE Nationals in middle management roles.

In FY2021, we significantly increased investment in training hours across levels. Total hours amounted to 77,034 up from 28,711 in FY2020. The total hours invested into training have been further categorized basis male and female. (Shown below)

Employee Category	Male	Female	Total Training Hours
Senior Management	226	35	261
Middle Management	37,594	30,687	68,281
Branch Managers	171	247	418
Junior Management	2,960	796	3,756
Bank Employees	2,801	1,517	4,318
Total Training Hours	43,752	33,282	77,034

	Unit	2019	2020	2021
Amount invested in training	AED million	14.65	17.53	12.65

We also frequently review and report on the below KPIs to evaluate the effectiveness of our employee development activities:

- Average training days per employee
- Average training spends per employee
- Training spends as a percentage of OPEX
- Training spends as a percentage of wage bill
- Average training effectiveness score
- Percentage of International Development Programme (IDP) completion for High-potential Development Programme participants

Human Rights

Driven by our values of integrity, we fully support and respect the protection of human rights in all countries and regions of operation. We not only abide by respective laws and regulations, but also actively promote practices that advance human rights both within our business and across our value chain. This includes establishing standards that apply to our employees, client and customer interactions, business relationships, and the communities we serve.

As a leading financial institution, we recognize our responsibility in identifying and combatting incidents of violation. To demonstrate our commitment to this responsibility, we formulated a Human Rights Policy that captures our approach to supporting business practices that are grounded on the principles of fairness, equality, and respect for all. Our pledge to protect and promote human rights is further woven into group-wide policies. This includes our Code of Conduct and our Supplier Charter, which communicate the expectations we hold from our respective stakeholders in upholding the highest standard in the protection and promotion of human rights.

We do not track and monitor collective bargaining agreements as there is no law mandated by the UAE government.

Non-Discrimination

As an equal opportunity employer, Mashreq Bank has invested in building and fostering a workplace environment that is grounded on the principles of equality, fairness, and safety. We pledge to support our employees with opportunities free from discrimination and harassment, without distinction. All areas of employment follow a merit-based structure, including recruitment, job allocation, transfer, access to benefits, compensation, and promotion. In line with our non-discrimination policy, we do not tolerate any form of discriminatory behavior, whether within our workforce or across our supply chain.

We have further established mechanisms that encourage employees and associated parties to report all incidents of discrimination or harassment, whether victim or witness. Through our grievance redressal system, supported by our Whistle-blowing Policy available to all internal and external parties, allegations are managed confidentially through a robust process of investigation and corrective action.

Occupational Health & Safety

In recognizing the key role that our employees play in the success of our business, investing in their health, safety and wellbeing is a core priority. We take responsibility for their physical, mental, and emotional wellbeing 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' wellbeing 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 FY2021, we reported zero such cases of work-related illnesses, injuries, and fatalities among full-time, part-time, and contractor employees.

Community Investment and Socio-Economic Development

As a socially responsible organization, we firmly believe that supporting socio-economic development through CSR not only creates positive impact on our shared society, but simultaneously fosters the bank's long-term success and stability. With this, giving back is aligned with our core purpose, corporate values, and is deeply embedded in our corporate culture, as outlined in our CSR policy. In June 2011, we officially launched our CSR Programme, managed by the CSR & Internal Communications Unit with support from the Emiratization HR Unit and the UAE National Learning & Development Unit. We have since supported various charitable activities geared towards supporting young people, the underprivileged, health and wellbeing, art and culture, gender equality through female empowerment, and the inclusion of People of Determination. Through a combination of volunteerism and partnerships with other organizations, we have broadened our scope, reach, and impact on society at large.

In FY2021, we invested AED 770,576 in the community, representing 0.015% of annual net revenue.

Community Investment (AED millions)	2019	2020	2021
Total Community Investment	1.00	1.00	0.77

Mashreq's Ahsen Charity Program introduced a new era of Digital Charity and today in its third year, we are proud to say that all contributions have been donated towards our carefully chosen causes and we have achieved more than we could imagine.

In 2021, our focus areas revolved around uplifting the poor and marginalized communities through socially responsible initiatives. We partnered with Beit Al Khair Society; a humanitarian beneficial entity established in 1989. The organization works to support the poor and vulnerable, reaching out to groups such as low-income families, patients, widows, and the families of people with disabilities and those with special needs. At Mashreq, we also encourage our employees to participate actively in our CSR initiatives, allowing us to truly maximize impact. Beit Al Khair Society regularly sets up kiosks in our offices to engage employees by raising awareness on their on-going charitable programs and educating employees on lending support. In 2021, we collected a whopping AED 306,127 against our target of AED 300,000 to educate and impart knowledge to 50 students from vulnerable groups.

We also worked closely with the Dar Al Ber Society, a non-profit that has implemented a wide range of charitable projects in Arab and Islamic countries. Some of our work included building schools, colleges, and orphanages, implementing Ramadan fasting projects, and allocating endowments for charity, among others. This year we collaborated with the organization to work on the Water Extension initiative for Ethiopia. Through our mission, we successfully raised an impressive AED 464,449 against our initial target of AED 456,530.

As we move forward, we pledge to continue leveraging our leadership status and harnessing our resources to create solutions and opportunities for our communities.

8. Our Responsibility towards the Environment

As a leading financial institution, we recognize our role and responsibility in fostering the growth of economies while maintaining the ecosystem and preserving its valuable resources. In line with this, we have made a concerted effort to incorporate environment friendly practices and regulations across our value chain. As we continue to advance our environmental strategy, we aim to position ourselves at the forefront of the net zero transition.

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. The new units are air-cooled twin VSD screw chillers that save energy by managing on-demand load operation. Though our initiatives, the 2021 reduced energy consumption is equivalent to 1,229,000 kWh.

Energy Consumption

Component	Unit	2020	2021
Electricity consumption	kWh	15,981,085	19,870,817
LPG consumption	m^3	1651.77	3,576
Diesel Consumption	Liters	2,694	2,627

Energy Consumption in GJ

Component	2020	2021
Electricity consumption	57,531.86	71,534.88
LPG consumption	92.13	89.84
Diesel Consumption	62.58	135.49
Total Energy Consumption	57,686.57	71,760.21

Energy Mix 2021

Energy Mix of 2021	Percentages (Basis of GJ)
Electricity	99.68%
Liquified Petroleum Gas (LPG)	0.19%
High-Speed Diesel (HSD)	0.13%
Total	100%

The energy intensity ratio refers to the internal consumption of energy, as is shown below.

Component		2020	2021
Total Energy Consumption	GJ	57,686.58	71,760.22
Total space occupied	m^2	30,598	30,598
Energy Intensity	GJ/m^2	1.88	2.35

Mashreq is in the process of setting up a tracking mechanism for energy consumption outside of the organization. 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.

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 in FY2021. 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.

As we move forward, we continue to increase our efforts to reduce, offset, and report our scope 1, 2, and 3 emissions from our facilities. While calculating emissions for FY2021, an overall increase was observed compared to the previous year due to limited operations in 2020 owing to the pandemic.

Direct (Scope 1) GHG emissions

Direct Scope 1 Emissions	Unit	2020	2021
Diesel	tCO2e	6.15	6
LPG	tCO2e	10	34
Refrigerants	tCO2e	0	0.89
Total Direct Emissions	tCO2e	16.15	40.89

Energy indirect (Scope 2) GHG emissions

Indirect Scope 2 Emissions	Unit	2020	2021
Electricity	tCO2e	7,085.08	11,381
Water	tCO2e	64.1	69
Chilled water	tCO2e	583	2,454
Total Indirect scope 2 Emissions	tCO2e	7,732.18	13,904

Other indirect (Scope 3) GHG emissions

Other Indirect Emissions	Unit	2020	2021
General Waste	tCO2e	24.41	192
General Paper waste	tCO2e	0.13	0.12
General Plastic waste	tCO2e	-	2.50
Total Other Indirect Emissions	tCO2e	24.54	194.62

GHG emissions intensity (Scope 1+2)

	Unit	2020	2021
Total Emissions	tCO2e	7,748	13945
Total space occupied	m^2	30,598	30,598
Emissions Intensity	tCO2e /m^2	0.25	0.45

Water Management

Water is a vital component of economic development. However, widespread water scarcity is driving social, economic, and political concerns worldwide. Shortages 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	2020	2021
Total Water Consumption	litres	29,294,000	31,975,750

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 effluent and 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. In 2021 we saw an increase in our total waste produced. This was due to our office operations resuming post the pandemic. To mitigate this impact, we stimulated our waste management through our recycling initiatives, resulting in 2,02,547 Kgs of paper and 151 Kgs of plastic recycled respectively.

	Unit	2020	2021
Total Waste Produced	Kg	244,123	547,366

As we move forward, our digitization drive will continue to deliver more effective waste management solutions. As of 2021, 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.

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 the formulation of a 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 polices, frameworks for assessing environmental impact, and commitments for continual improvement.

9. The Way Forward

Mashreq's longstanding heritage and years of professional expertise have provided the institution with a unique perspective on the United Arab Emirates evolving ecosystem. In FY2022, we aim to enhance every element of our ESG strategy and continue contributing to the protection of the environment through our green practices and principles.

To play a more instrumental role in the protection of the environment, we aim to increase efforts in support of the transition to a low carbon economy. With 80% of our office buildings in compliance with the UAE Building Management System standards for energy efficiency, our next step is to expand to 100%. Another area of focus at Mashreq is our recycling management strategy, with particular emphasis on our paper and plastic waste. With a systematic waste reduction plan and conscious efforts, we are actively working towards achieving paperless banking in line with our digitization strategy. These changes will help us work further towards safeguarding the planet and its resources.

We are proud of our exceptional Human Resource system which helped us win the 'Best Place to Work Award' for 6 consecutive years by Gallup, we realize this was possible due to our world-class employee engagement and health and well-being frameworks. We aim to continue this trend. This year, we will focus on improving our approach to inclusivity, health, and safety systems, and expanding our wide range of CSR initiatives. To strengthen diversity and inclusivity, Mashreq aspires to recruit a minimum of 50 People of Determination globally as well as increase the representation of females to a 50:50 ratio in the total workforce and double the number of females in senior and middle-level management within the next two years. We also plan on designing and implementing a Group Occupational Health and Safety system to create a systematic approach to managing and mitigating health and safety risks at the workplace.

Mashreq's corporate governance framework has always played a critical role in the organizational culture, shareholder relations, and overall progress of the institution. To develop and improve the sustainability area of our governance we formed our first Sustainability Working Group in FY2021. As this team of experts will bring together a combination of policy research, innovation, and insight, 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.

Our 2021 Awards

Euromoney Awards for Excellence	Best Digital Bank in the Middle East
Euromoney Cash Management Survey	Market Leader in the UAE Market Leader in Africa Best Service in Africa – All currency Best Service in Africa – Business functions Best Service in Africa – Financial facilities
Euromoney Trade Finance Survey	Market Leader in the UAE Market Leader in the Middle East Best Service in Africa – Digital offering Best Service in Africa – Support & Advisory Best Service in Africa – All trade finance
Euromoney Cash Management for Institutional Surveys	Market Leader in the Middle East and Africa
Euromoney Regional Awards for Excellence	Middle East's Best Digital Bank
International Business Magazine Award	Best Retail Bank UAE 2021
Global Finance	Distinguished Crisis Leadership Best Bank for New Financial Technology in Middle-East Best Consumer Digital Bank Best Corporate/Institutional Digital Bank in UAE Best Trade Finance Services in UAE Best Online Portal in UAE Most Innovative Digital Bank in UAE Innovation in Cash Management Innovation in Islamic Finance
Asian Banking & Finance - Corporate & Investment Banking Awards 2021	Debt deal of the year – VIP Investments Syndicated deal of the year – Gargash Investments
Global Banking & Finance Awards	Banking CEO of the Year UAE 2021 - Ahmed Abdelaal Best Bank for Digital Banking Services MENA 2021 Most Innovative Private Bank for Digital Client Solutions UAE 2021
Pan Finance Award	Neo Bank of the Year Outstanding CEO of the Year - Ahmed Abdelaal - MENA 2021
Global Business Magazine Award	Best Corporate Bank Qatar 2021
Global Private Banking Awards	Best Private Bank in the UAE
Global Islamic Finance Awards (GIFA) 2021	Best New Sukuk – Bahrain – Mashreq Most Innovative Deal - Saudi Arabia - Mashreq Al Islami

	Deal of the Year – UAE - Mashreq
Global Finance – Best Investment Bank 2021	Best Bank for Crisis Finance Solutions – Regional Category for Middle East
MEA Finance	Digital Banking Innovation of the Year Best Cybersecurity and Risk Management Implementation Best Branch Digitisation Implementation
Finance Derivative	Best Smart Retail Bank Middle East
IBSi FinTech Innovation Awards	Best Fraud Risk Management Implementation category
World Business Awards	Best Digital Bank – UAE 2021 Most Innovative Islamic Banking Solutions Provider – UAE 2021
World Economic Magazine	Best Digital Bank UAE
World Business Outlook Awards	Best Digital Bank of the Year UAE
EMEA Finance - Middle East Banking Awards	Best local bank
EMEA Finance's Treasury Services Awards	Best Factoring Services in the Middle East Best Payment Services in the Middle East Best Treasury Services in the Middle East
2nd Open Banking Forum	Innovation In Digital Banking Award
Future Workplace Award 2021	Best Employee Wellbeing Programme
Asia Money	Best Digital Bank in the Middle East Best Transaction Bank in the Middle East Best Digital Bank in Dubai
UAE Ministry of Human Resources and Emiratization	Emiratization Award in the category of large establishments
Private Banker International Global Wealth awards	Outstanding Private Bank Middle East
Finnovex Middle East Awards 2021	CTO of the year Excellence in NEOBANK
E-Business Awards 2021	Digital SME Bank of the Year
DFM Brokers Excellence Rating Model Award	5 Stars DFM Brokers Excellence Rating for 2020
21st annual World's Best Trade Finance Providers review	Best Trade Finance Provider in UAE Best Use of Artificial Intelligence in Trade Finance

Contributing to the UNSDGS

The table below maps our initiatives with the respective SDGs. Henceforth, in 2022 we will begin to report targets and measure our progress against the SDGs.

UNSDGS	Initiatives
SDG 3: Good Health & Wellbeing	• Work-from-Home policy • Counselling sessions for employees • Employee Wellness Days • Health Awareness Sessions • Installation of First AID kits at offices • Provision of first AID trainings • Appointment of fire field marshals at offices
SDG 4: Quality Education	• CSR initiatives towards educating youth
SDG 5: Gender Equality	• Flexible working hours for women • Work-from-home arrangements • New mother's room
SDG 6: Clean Water & Sanitation	• CSR initiatives towards providing drinking water
SDG 8: Decent Work & Economic Growth	• Employee learning and development
SDG 9: Industry, Innovation, and Infrastructure	• 80% offices compliant with Building Management Systems
SDG 10: Reduced Inequalities	• Flexible working arrangements for People of Determination (PwD) • Developed PwD-friendly offices
SDG 12: Responsible Consumption and Production	• Local procurement • Designed Supplier Charter to facilitate business relationships with responsible suppliers • Waste recycling
SDG 17: Partnerships for the Goals	• Wide network of partners

Governance Report - 2021
Mashreqbank psc

MASHREQBANK PSC

GOVERNANCE REPORT FOR 2021

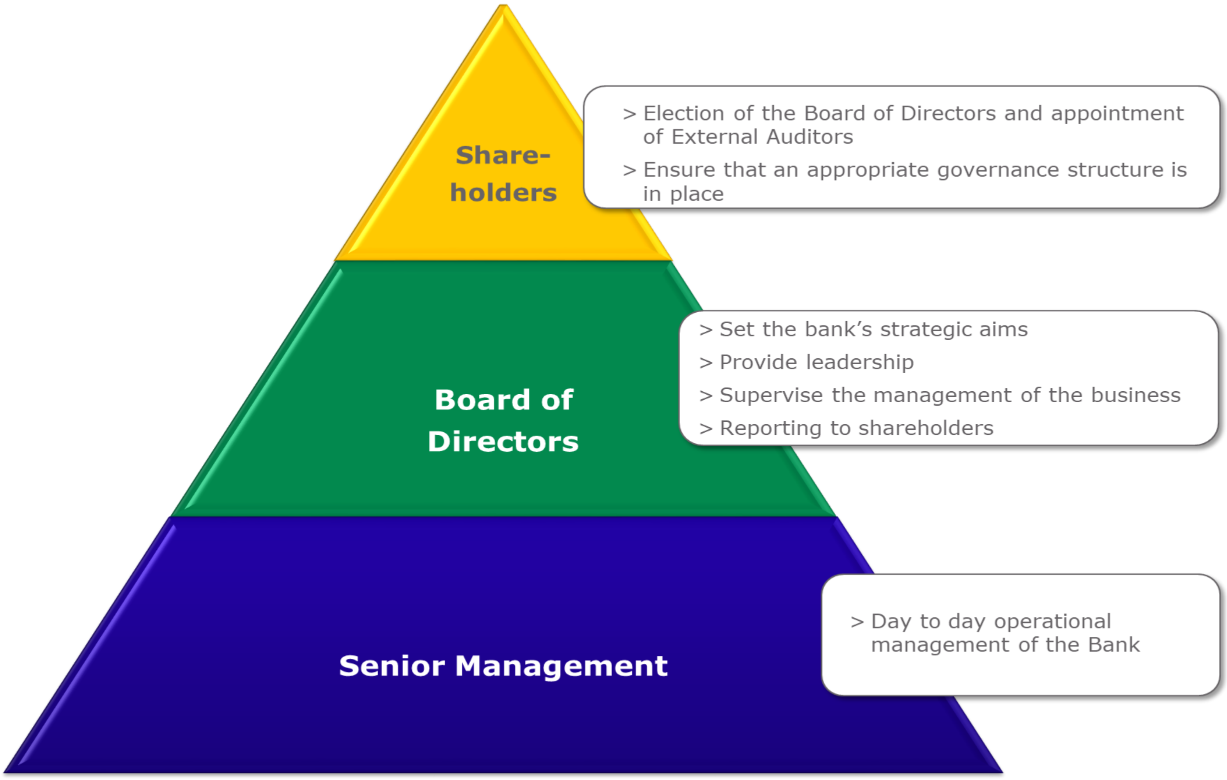
1. Statement of procedures taken to complete the corporate governance system, during 2021 and method of implementing thereof.

Mashreqbank psc ("**Mashreq**" or "**Bank**") has in place corporate governance rules based on: industry best practices; the UAE Commercial Companies Law No. 2 of 2015 as amended ("**Companies Law**"); regulations of the Central Bank of the United Arab Emirates ("**UAE**"); and the UAE Securities and Commodities Authority..

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; and
- The Board Secretary is independent and reports to the Board.

2. **Statement of ownership and trading in the company' shares by Board of Directors (Board) members and their spouses and children during 2021, according to the following table:**

Ser.	Name	Position/ Kinship	Owned shares as on 31/12/2021	Total sale	Total purchase
1	Mr. Ali Rashed Ahmad Lootah	Board Member	229,003	0	0
2	Mr. Rashed Saif Ahmad Al Ghurair Al Suwaidi	Board Member	1,130	0	0
3	Mr. Mansoor Abdul Aziz Abdulla Al Ghurair	Son of Chairman	1,543	0	0

3. BOARD FORMATION*

A. Statement of the current Board formation (along with the names of both the resigned and appointed Board members) according to the following table:

S. No	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.
1.	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. Board Member of National Cement 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.
2.	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
3.	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	Independent	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.	• Al Ghurair Holding Ltd. - Board Member. • Board Member - Emirates General Petroleum Corporation (Emarat),
4.	Mr. Rashed Saif Ahmad Al Ghurair Al Suwaidi	Non-Executive		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

5.	Mr. John Gregory Iossifidis	Independent	Over 35 years of experience in banking and financial sector. MBA from Monash University, Australia	Board member of Mashreq since 2021	NIL	• 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)
6.	Mr. Iyad Mazher Saleh Malas	Non-Executive	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
7.	Mr. Saeed Saif Ahmed Majid Al Ghurair.	Non-Executive	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 are newly elected by the AGM held on 19th April 2021.

B. Statement of the percentage of female representation in the Board for 2021 (In case of non-representation, please state that there is no representation).

In the current Board appointed by the AGM held on 19/04/2021, there is no female representation.

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.

C. Statement of the reasons for the absence of any female candidate for the Board membership. (Explanatory example: No female candidate is nominated in the Board elections.

The current Board of Directors elected by the AGM held on 19/4/2021 did not include any female candidates as no female candidate was nominated in the Board election of 2021.

D. Statement of the following:

1- The total remunerations paid to the Board members for the 2020.

NIL

2- The total remunerations of the Board members, which are proposed for 2021, 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:

a) Chairman - AED 550,000.00

b) Board Members each - AED 450,000.00

3- Details of the allowances for attending sessions of the committees emanating from the Board, which were received by the Board members for 2021 fiscal year, according to the following table:

No allowance is paid to Board members for attending either the Board or Committee meetings.

4- Details of the additional allowances, salaries or fees received by a Board member other than the allowances for attending the committees and their reasons.

No additional allowance, salaries or fees is paid to Board members for attending the committee meetings.

E. Number of the Board meetings held during 2021 fiscal year along with their convening dates, personal attendance times of all members, and members attending by proxy (The Board members names must match those stated in the Clause (3A) above).

Ser.	Date of meeting	Number of attendees	Number of attendees by proxy	Names of absent members
1.	10 February 2021	6	NIL	Mr. Abdullah Ahmed Al Ghurair
2.	29 April 2021	7	NIL	NIL
3.	14 July 2021	6	1	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi
4.	09 Nov 2021	5	1	H.E. Abdul Aziz Abdulla Al Ghurair Mr. Rashed Saif Ahmad Al Ghurair Al Suwaidi
5.	19 Dec 2021	6	1	Mr. Ali Rashed Ahmad Lootah

	Name of Board Member	Board Meetings held in 2021				
		Meeting 1	Meeting 2	Meeting 3	Meeting 4	Meeting 5
		10 Feb 2021	29 April 2021	14 July 2021	9th Nov 2021	19 Dec 2021
1.	H.E. Abdul Aziz Abdulla Al Ghurair	*√	√	√	*A	√
2	Mr. Ali Rashed Ahmad Lootah	√	√	√	√	
3	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	√	√	Proxy	√	√
4	Mr. Rashed Saif Ahmad Al Ghurair Al Suwaidi	√	√	√	Proxy	√
5.	Mr. John Gregory Iossifidis	*N/A	√	√	√	√

6.	Mr. Iyad Mazher Saleh Malas	N/A	√	√	√	√
7.	Mr. Saeed Saif Ahmed Majid Al Ghurair	N/A	√	√	√	√
8.	Mr. Abdullah Ahmed Al Ghurair	A	N/A	N/A	N/A	N/A
9.	Mr. Mohamed Saif Al Ghurair	√	N/A	N/A	N/A	N/A
10.	Mr.Sultan Abdulla Al Ghurair	√	N/A	N/A	N/A	N/A

*√: Present in person, A: Absent with valid reason, N/A: Not a Board member at the date of the meeting

F. Number of the Board resolutions passed during the 2021 fiscal year, along with its meeting convening dates.

1) Board Resolution dated 10/2/2021 to approve execution of ISDA, Global Master Securities Lending Agreement, Global Master Repurchase Agreement, Clearing Agreement, Islamic ISDA document, ISDA Tahawat Master Agreement and IIFM Master Collateralized Murabaha Agreement.

2) Resolution dated 10/2/2021 to approve issuing guarantee cover arising from Security financing for derivative transaction in Invictus Limited (Subsidiary of the Bank).

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.

G. Statement of Board duties and powers exercised by Board members or the executive management members during 2021 based on an authorization from the Board, specifying the duration and validity of the authorization according to the following table:

Ser.	Name of the authorized person	Power of authorization	Duration of authorization
1.	Mr. Ahmed Abdelaal Group Chief Executive Officer (CEO)	To represent the Bank in performing its objects before all govt and private corporations, agencies, customers and executed agreements, contacts and transactions.	Unlimited duration unless cancelled
2.	Senior Management Executive	To incorporate and set up two Centre of Excellence (COE) in Egypt and Pakistan.	Until the incorporation of legal entities completed

H. Statement of the details of transactions made with the related parties (Stakeholders) during 2021, provided that it includes the following:

Ser.	Nature of relationship	Type of transaction	Value of transaction
1	Major Shareholders	Loan and advances	2,810,150
		Letter of credit and guarantees	1,854,305
		Deposits / Financial instruments under lien	1,029,236
2	Directors	Loan and advances	99,139
		Letter of credit and guarantees	5,369
		Deposits / Financial instruments under lien	212,449

Note:- All amount in AED 000

I. **The complete organization structure of the company, provided that it includes the managing director, the general manager and / or CEO, the deputy general manager and the managers working at the company such as the finance manager.**

J. A detailed statement of the senior executives in the first and second grade according to the company organizational structure (according to 3-I), their jobs and dates of their appointment, along with a statement of the total salaries and bonuses paid to them, according to the following table:

Ser.	Position	Appointment date
1	Group Chief Executive Officer	6-Nov-2017
2	Group Head of Corporate & Investment Banking	1-Mar-2020
3	Group Head of Retail Banking	12-Jul-2021
4	Group Head of Corporate Affairs	22-Jul-1980
5	Group Head of International Banking	19-Jan-2020
6	Group Head of Treasury and Capital Markets	11-May-1996
7	Group Chief Credit Officer & Head of Risk Management	5-Mar-2019
8	Group Head of Internal Audit	16-Oct-2004
9	Group Chief Risk Officer & Head of Credit Management	24-Mar-2019
10	Head of Technology, Transformation and Information	10-Mar-2020
11	Group General Counsel	21-Mar-2021
12	Client Experience & Conduct Officer	18-Feb-2018
13	Group Head of Operations	18-Mar-2020
14	Group Head of Compliance & Bank MLRO	28-Jun-2020
15	Group Head of Marketing &Corporate Communications	13-Jul-2020

Management's remuneration

The total salaries and benefits paid in 2021 to the senior management of the Bank is AED 28,282,961.00. The Bank has not paid any bonus in the year 2021.

4. EXTERNAL AUDITOR:

A. External auditors overview	PriceWaterhouseCooopers ("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	PricewaterhouseCooopers (Dubai Branch)
Number of years served as external auditor	4 years
Name of the external audit partner	Stuart Scoular
Number of years audit partner has served in this role	3 years
Total audit fees for 2021	AED 815,000
Fees and costs of other services other than auditing the financial statements for 2021	AED 1,830,000
Details and nature of other services provided by the external auditor	1. Agreed upon procedures in respect of the XBRL filing requirements 2. Agreed upon procedures in respect of the schedule of unclaimed dividends 3. Long form report for overseas branches of the Bank as required by Central Bank of UAE

C. Auditor reservations	The auditor's report did not provide any qualified opinion regarding the interim or annual financial statements for the year 2021

5. AUDIT COMMITTEE:

A. **The Audit Committee Chairman's acknowledgment of his responsibility for the Committee system at the Company, review of its work mechanism and ensuring its effectiveness**.

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:

a. to review the financial reporting process and establishment of significant accounting policies and practices;
b. 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;
c. to certify the external auditor's qualifications and independence;
d. to review and approve a comprehensive internal audit plan and quarterly report prepared by the internal audit team;
e. 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.

B. Names of the Audit Committee members and their competences and tasks assigned to them.

S. No.	Name	Position	Competences	Tasks assigned
1.	John Gregory Iossifidis	Chairman	MBA from Monash University, Australia	General task of the Committee

			Over 35 years of experience in banking and financial sector.	
2.	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
3.	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

C. Number of meetings held by the Audit Committee during 2021 and their dates to discuss the matters related to financial statements and any other matters, while stating the members' personal attendance times at the held meetings.

	Name of BAC Member	BAC Meetings held in 2021			
		Meeting 1	**Meeting 2**	**Meeting 3**	**Meeting 4**
		9th February 2021	**6th June 2021**	**14th July 2021**	**9th Nov 2021**
	Mr. John Gregory Iossifidis	*N/A	√	√	√
	Mr. Iyad Mazher Saleh Malas	N/A	√	√	√

	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	*√	√	√	√
	Mr. Sultan Abdulla Al Ghurair	√	N/A	N/A	N/A
	Mr. Rashid Saif Al Ghurair	√	N/A	N/A	N/A

* √ - Present in person, N/A – Not a BAC member at the date of the meeting.

6. NOMINATION AND REMUNERATION COMMITTEE:

A. The Nomination and Compensation Committee Chairman's acknowledgment of his responsibility for the Committee system at the Company, his review of its work mechanism and ensuring its effectiveness.

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.

B. **Names of the Nomination and Compensation Committee members and their competences and tasks assigned to them.**

S. No.	Name	Position	Competences	Tasks assigned

1.	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 management, product and project management, trading and valuation and mergers and acquisitions.	General task of the Committee
2.	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
3.	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

D. Statement of number of meetings held by the Committee during 2021 and their dates, and statement of all Committee members' personal attendance times.

	Name of BNCC Member	**BNCC Meetings held in 2021**	
		Meeting 1	**Meeting 2**
		29th March 2021	**16th December 2021**
1.	Mr. Saeed Saif Ahmed Majid Al Ghurair	*N/A	*√
2.	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	√	√

3.	Mr. Ali Rashed Ahmad Lootah	√	√
	Mr. Mohamed Saif Al Al Ghurair	√	N/A

√ - Present in person, N/A – Not a BNCC member at the date of the meeting.

7. 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.

8. ANY OTHER COMMITTEE(S) APPROVED BY THE BOARD.

I) BOARD RISK COMMITTEE – ("BRC")

A. The Board Risk Committee Chairman's acknowledgment of his responsibility for the Committee system at the Company, review of its work mechanism and ensuring its effectiveness.

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:

a. 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;
b. to make recommendations as it may deem necessary on any risk management related matters including but not limited to Bank's risk appetite;
c. to safeguard the independence of, and oversee the performance of, risk functions; and
d. 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.

B. Name of Committee(s). BOARD RISK COMMITTEE ("BRC")

C. Names of each committee members, their competences and tasks assigned thereto.

S. No.	Name	Position	Competences	Tasks assigned
1.	Mr. Ali Rashed Ahmad Lootah	Chairman	Civil engineering graduate from Clarkson University in the United States Over 30 years of experience in Finance & Real Estate.	General task of the Committee
2.	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
3.	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

D. Statement of number of meetings held by the Committee during 2021 and their dates, and all Committee members' personal attendance times.

	Name of BRC Member	BRC Meetings held in 2021			
		Meeting 1	Meeting 2	Meeting 3	Meeting 4
		11th March 2021	5th April 2021	3rd Aug 2021	14th Dec. 2021
	Mr. Ali Rashed Ahmad Lootah	*√	√	√	√
	Mr. John Gregory Iossifidis	*N/A	N/A	√	√
	Mr. Rashed Saif Ahmad Al Ghurair Al Suwaidi	N/A	N/A	√	√

	Mr. Mohamed Saif Al Al Ghurair	√	√	N/A	N/A
	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	√	√	N/A	N/A

* √ - Present in person, N/A – Not a BAC member at the date of the meeting.

II) BOARD CREDIT COMMITTEE – ("BCC")

A. The Board Credit Committee Chairman's acknowledgment of his responsibility for the Committee system at the Company, review of its work mechanism and ensuring its effectiveness.

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.

B) Name of Committee(s). BOARD CREDIT COMMITTEE

C) Names of each committee members, their competences and tasks assigned thereto.

S. No.	Name	Position	Competences	Tasks assigned
1.	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	Chairman	B.Sc. degree in petroleum and natural gas engineering from	General task of the Committee

			the Pennsylvania State University, USA 40 years of experience in the oil & gas industry.	
2.	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
3.	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

D) Statement of number of meetings held by the Committee during 2021 and their dates, and all Committee members' personal attendance times.

E)	Name of BCC Member	BCC Meetings held in 2021	
		Meeting 1	Meeting 2
		18th May 2021	4th Nov 2021
	Mr. Rashed Saif Saeed Al Jarwan Al Shamsi	√	√
	Mr. Ali Rashed Ahmad Lootah	√	√
	Iyad Mazher Saleh Malas	√	√

9) INTERNAL CONTROL SYSTEM:

A. Acknowledgment by the Board of its responsibility for the Company internal control system, review of its work mechanism and ensuring its effectiveness.

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.

B. Name of the department director, his qualifications and date of appointment.

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.

C. Name of Compliance Officer, his qualifications and date of appointment.

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.

D. How the Internal Control Department dealt with any major problems at the Company or those that were disclosed in the annual reports and accounts (in case of the absence of major problems, it must be mentioned that the Company did not face any problems).

Internal Audit Group is primarily providing the independent assurance to shareholders, stakeholders and regulators, with some scope for limited consultancy as and when required/possible (without impact on independence). Board Audit Committee (BAC) is the ultimate organ in the Bank where the 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 2021, no issue with major impact has been detected.

E. Number of reports issued by the Internal Control Department to the Company's Board of Directors.

Internal Audit issued 58 reports during the year 2021. 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.

10. **Details of the violations committed during 2021, explaining their causes, how to address them and avoid their recurrence in the future.**

The UAE Securities and Commodities Authority (SCA) enforcement department issued a warning to Mashreq Bank dated 3rd Aug'21, in its capacity as a licensed Promoter for failing to submit the Annual P/L report for the FY-2020 within the given timelines. All necessary action taken into consideration by the concerned unit for future compliance.

11. Statement of the cash and in-kind contributions made by the Company during 2021 in developing the local community and preserving the environment. (In case of the absence of contributions, it must be mentioned that the Company has not made any contributions.)

The Bank collected the donations via digital channels from the customers to contribute for the following 2 goals;

(a) Educate 50 Students via Bait Al Khair (AED 306,127/-)
(b) Water Extension provided in Ethiopia (AED 464,449/-) via Dar AL Ber Society.

12. GENERAL INFORMATION:

A. Statement of the company share price in the market (closing price, highest price, and lowest price) at the end of each month during the fiscal year 2021.

	January	February	March	April	May	June	July	August	Sept.	Oct.	Nov.	Dec.
High	71	67.5	65	65	65	67	67	60.2	70	72.5	80	79.5
Low	67.5	64.1	65	65	61	60	60.2	60	61	70	66.4	75
Close	67.5	65	65	65	61	67	60.2	60	70	72.5	75	79.5

B. Statement of the Company comparative performance with the general market index and sector index to which the Company belongs during 2021.

	January	February	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Mashreq Share Price	67.5	65	65	65	61	67	60.2	60	70	72.5	75	79.5
% Growth		-3.85%	0.00%	0.00%	-6.56%	8.96%	-11.30%	-0.33%	14.29%	3.45%	3.33%	5.66%
DFM Index	2,654.1	2,551.5	2,550.2	2,605.4	2,797.5	2,857.1	2,765.7	2,903.0	2,845.5	2,864.2	3,170.3	3,195.9
% Growth		-4.02%	-0.05%	2.12%	6.87%	2.09%	-3.30%	4.73%	-2.02%	0.65%	9.65%	0.80%

	January	February	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Mashreq Share Price	67.5	65	65	65	61	67	60.2	60	70	72.5	75	79.5
% Growth		-3.85%	0.00%	0.00%	-6.56%	8.96%	-11.30%	-0.33%	14.29%	3.45%	3.33%	5.66%
Banking Index	2,485.8	2,402.5	2,386.9	2,452.1	2,651.8	2,621.2	2,628.5	2,732.9	2,745.8	2,749.1	2,765.1	2,861.2
% Growth		-3.47%	-0.65%	2.66%	7.53%	-1.17%	0.28%	3.82%	0.47%	0.12%	0.58%	3.36%

C. Statement of the shareholders ownership distribution as on 31/12/2021 (individuals, companies, governments) classified as follows: local, Gulf, Arab and foreign.

Ser.	Shareholder classification	Percentage of owned shares			
		Individuals	Companies	Government	Total
	Local	4.3	92.6		96.9
	Arab	0.8	0.3		1.1

	Foreign	0.8	1.3		2.0
	Total	**5.9**	**94.1**		**100.0**

Note: Arab countries include Kuwait, Bahrain, Saudi Arabia, Oman, Qatar, Lebanon, Syria and Egypt.

D. Statement of shareholders owning 5% or more of the Company's capital as on 31/12/2021 according to the following table:

Ser.	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

E. Statement of how shareholders are distributed according to the volume of property as on 31/12/2021 according to the following table:

Ser.	Share(s) ownership	Number of shareholders	Number of owned shares	Percentage of owned shares of the capital
1	Less than 50,000	99	768,897	0.38
2	From 50,000 to less than 500,000	32	6,810,447	3.39
3	From 500,000 to less than 5,000,000	10	11,501,969	5.73
4	More than 5,000,000	6	181,528,517	90.49

F. 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

G. Statement of the special resolutions presented in the General assembly held during 2021 and the procedures taken in their regard.

1) Special resolution approved by the AGM held on 19/4/2021 with regards to the renewal of the Board of Directors authorities for issuance of non-equity securities by the Bank with maximum limit of USD5 Billion in accordance with UAE Central Bank regulations, SCA and the Articles of Association of the Bank.

2) Special Resolution approved by the General Assembly meeting held on 9/11/2021 to increase Bank's share capital to AED 2,006,098,300 by issuing 13% of bonus shares totalling 23,079,007 units based on the existing face value of AED 10 per share and is hereby approved.

3) Special Resolution approved by the General Assembly meeting held on 9/11/2021 to amend Article 5 (Chapter two) of the Articles of Association with regards to the capital increase and Article 31 and 54.4 relating to remuneration of the Board of Directors.

H. Name of the Rapporteur of the Board meetings and his appointment date.

Mr. Marouf Shweikeh, the Group General Counsel of the Bank was appointed as the Rapporteur of the Board of Directors' Meeting and Company Secretary on 29th April 2021 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.

I. **Detailed statement of major events and important disclosures that the Company encountered during 2021:**

None

J. **Statement of the transactions that the company made with the related parties during 2021, 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	2,631,235
		Letter of credit and guarantees	1,847,618
		Deposits / Financial instruments under lien	617,145

Note: All amount in AED 000

K. Statement of Emiratization percentage in the Company at the end of 2019, 2020, 2021 (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.

2019	2020	2021
1,598	1,623	1817.5

L. Statement of innovative projects and initiatives carried out by the company or being developed during 2021.

Digital Initiatives:

- **Mashreq Wholesale Digital Program**: The Wholesale Digital Program has four pillars under which it is driving its digital & innovation strategy:
  - Disruptive coverage
  - Advanced analytics
  - Digital customer journeys
  - Next generation products.

- Mashreq launched a fully secured encrypted and **automated customer deposit refund platform** at Sharjah Electricity & Water Authority **(SEWA)**

- Mashreq partnered with **Sharjah Research, Technology and Innovation Park** to support companies located within the techno-hub zone and hosted a series of hackathons to offer start-up founders and SMEs with any key advice. Mashreq and SRTI Park will also collaborate in a range of areas to meet the banking and financing needs of SMEs and explore developing expedited account opening solutions for start-ups through deeper integration with SRTI Park.

HR Initiatives

- Mashreq Advance Certificate of Excellence (ACE) program was launched for Emiratis to provide the specialised training courses with an aim to build future Bankers
- Employee Welfare: Covid-19 Vaccination Drive was organized for all employees & their family members in Mashreq Premises.
- Mashreq Participated & won the Future Workplace Award 2021 in the **Best Employee Wellbeing Program** category.
- Mashreq launched the HR Digitization project to further automate HR processes & have upgraded our HR systems to enhance the employee experience with Mobile enabled HR apps.
- We established new Centre of Excellence (COEs) in different regions to attract Global Talent & enable Remote Working (work from anywhere)

Environmental, Social and Governance (ESG) & Corporate Social Responsibility (CSR Initiatives) Initiatives

- Mashreq Launched a **Digital Charity Platform "Ahsen"** to empower charity & donations digitally.
- Sponsored meals and welfare support for labourer's during Ramadan
- Organized Blood donation drives by Mashreq employees
- Donated Laptops to "Sheikh Mohammed Centre for Cultural and Social Understanding" for further distribution to children in need.

Abdul-Aziz Abdulla Al Ghurair **Chairman of the Board of Directors** **Date:** 08/**03/2022**	**John Gregory Iossifidis** **Chairman,** **Audit Committee** **Date:** 08 **/03/2022**	**Saeed Saif Ahmed** **Al Ghurair, Chairman,** **Nomination & Compensation Committee** **Date:** 08/**03/2022**	**Nasser A. Paracha** **Group Head of** **Internal Audit** **Date:** 08/**03/2022**

Dubai, U.A.E.
HEAD OFFICE

Company Official Seal

Annual Report of the Internal Shari'ah Supervision Committee of Mashreq Al Islami (Islamic Window of Mashreqbank PSC)

Issued on: 24th February 2022

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 2021 ("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 2021.
    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, 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 the amount collected from delaying customers due to late payment to be disposed towards charitable purposes along with the recipient of charity.
    e. Approving corrective and preventive measures related to identified incidents to preclude their reoccurrence in the future.
    f. The responsibility of paying Zakah rests with the shareholders. The per share Zakah amount will be shared in the AGM.

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, based on information presented by Internal Shari'ah Audit and Internal Shari'ah Controls to 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	
Dr. Mohd Abdulrahim Sultan Alolama	Deputy Chairman	
Sheikh Abdullah Bin Sulaiman Al Meneea	Chairman	

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