BASE PROSPECTUS

Mashreqbank psc

(incorporated with limited liability in the United Arab Emirates as a public shareholding company)

U.S.$5,000,000,000
Euro Medium Term Note Programme

Under this U.S.$5,000,000,000 Euro Medium Term Note Programme (the "**Programme**") Mashreqbank psc, a public shareholding company incorporated in the United Arab Emirates (the "**UAE**") with limited liability ("**Mashreqbank**" or the "**Bank**"), may from time to time issue notes (the "**Notes**") denominated in any currency agreed between the Bank and the relevant Dealer (as defined below). The maximum aggregate principal amount of Notes outstanding at any one time under the Programme may not exceed U.S.$5,000,000,000 (or its equivalent in other currencies) and, for this purpose, any Notes denominated in any other currency shall be translated into U.S. dollars at the date of the agreement to issue such Notes (calculated in accordance with the provisions of the Dealership Agreement (as defined under "*Subscription and Sale*")), subject to any increase as described herein.

Notes may be issued on a continuing basis to one or more of the Dealers specified under "*General Description of the Programme*" and any additional Dealer appointed under the Programme from time to time by the Bank (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Base Prospectus (as defined below) to the "**relevant Dealer**" shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to subscribe for such Notes.

Notes will be issued in Series (as defined under "*Terms and Conditions of the Notes*") and each Series may comprise one or more Tranches (as defined under "*Terms and Conditions of the Notes*") issued on different issue dates. Notice of the aggregate principal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and certain other information which is applicable to each Tranche of Notes will be set out in a Final Terms document (the "**Final Terms**") (or, in the case of Exempt Notes (as defined below), the relevant Pricing Supplement (as defined below)) which, with respect to the Notes to be listed on the official list of the Luxembourg Stock Exchange, will be filed with the Luxembourg *Commission de Surveillance du Secteur Financier* (the "**CSSF**") on or before the date of issue of the Notes of such Tranche. Copies of Final Terms in relation to Notes to be listed on the Luxembourg Stock Exchange will also be published on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Mashreqbank has been rated A by Fitch Ratings Limited ("**Fitch**"), Baa1 by Moody's Investors Service Cyprus Ltd. ("**Moody's**") and A- by S&P Global Ratings Europe Limited ("**S&P**"), and the Programme has been rated A by Fitch, Baal by Moody's and A- by S&P. Each of Moody's and S&P is established in the EEA, is registered under Regulation (EU) No 1060/2009 on credit rating agencies (the "**EU CRA Regulation**") and appears on the latest update of the list of registered credit rating agencies (as of the date of this Base Prospectus) on the ESMA website http://www.esma.europa.eu. Moody's and S&P are not established in the United Kingdom ("**UK**") or registered under Regulation (EU) No 1060/2009 on credit rating agencies as it forms part of domestic law of the UK by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**"). The ratings that Moody's and S&P have given to the Notes to be issued under the Programme are endorsed by Moody's Investors Service Ltd. and S&P Global Ratings UK Limited, respectively, each of which is established in the UK and registered under the UK CRA Regulation. Fitch is established in the UK, is registered under the UK CRA Regulation and appears on the latest update of the list of registered credit rating agencies (as of the date of this Base Prospectus) on the UK Financial Conduct Authority's Financial Services Register. Fitch is not established in the EEA or registered under the EU CRA Regulation. The rating that Fitch has given to the Notes to be issued under the Programme is endorsed by Fitch Ratings Ireland Limited which is established in the EEA and registered under the EU CRA Regulation. Notes issued under the Programme may be rated or unrated by any of the rating agencies referred to above. **A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, revision or withdrawal at any time by the assigning rating agency.**

This document constitutes a base prospectus for the purposes of Article 8 of Regulation (EU) 2017/1129 (the "**EU Prospectus Regulation**") for all Notes issued under the Programme other than Exempt Notes.

This base prospectus (the "**Base Prospectus**") has been approved by the CSSF, as competent authority in Luxembourg under the EU Prospectus Regulation, as a base prospectus issued in compliance with the EU Prospectus Regulation for the purpose of giving information with regard to the issue of the Notes issued under the Programme described in this Base Prospectus during the period of twelve months after the date hereof. The CSSF has only approved the Base Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the EU Prospectus Regulation with respect to the Notes which will be admitted to listing on the official list and trading on the regulated market of the Luxembourg Stock Exchange and admission to trading on the professional segment of the Luxembourg Stock Exchange's regulated market. Such an approval should not be considered as an endorsement of the Bank nor as an endorsement of the quality of any Notes that are the subject of this Base Prospectus. Investors should make their own assessment as to the suitability of investing in such Notes. This Base Prospectus is valid for a period of twelve months from the date of approval in relation to the Notes which are to be admitted to listing on an official list and to trading on the regulated market in the EEA. The CSSF assumes no responsibility for the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of the Bank in line with the provisions of Article 6 (4) of the Luxembourg Law on Prospectuses for securities. The validity of this Base Prospectus will expire on 1 March 2023. The obligation to supplement this Base Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Base Prospectus is no longer valid. Applications have been made for such Notes to be admitted during the period of twelve months after the date hereof to listing on the official list and to trading on the regulated market of the Luxembourg Stock Exchange and admission to trading on the professional segment of the Luxembourg Stock Exchange's regulated market. The regulated market of the Luxembourg Stock Exchange is a regulated market for the purposes of Directive 2014/65/EU on markets in financial instruments (as amended, "**EU MiFID II**").

The requirement to publish a prospectus under the EU Prospectus Regulation only applies to Notes which are to be admitted to trading on a regulated market in the EEA and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 1(4) and/or 3(2) of the EU Prospectus Regulation. References in this Base Prospectus to "**Exempt Notes**" are to Notes for which no prospectus is required to be published under the EU Prospectus Regulation. **The CSSF has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Notes.**

The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed between the Bank and the relevant Dealer(s) in relation to each Series.

The Bank may agree with any Dealer that Notes may be issued in a form not contemplated by the Terms and Conditions of the Notes (the "**Conditions**") herein, in which event (in the case of Notes intended to be listed on the Luxembourg Stock Exchange) a new prospectus relating to that particular issue of Notes or (in the case of Exempt Notes) a pricing supplement (the "**Pricing Supplement**") issued by the Bank will be made available which will describe the effect of the agreement reached in relation to such Notes. By approving this Base Prospectus the CSSF gives no undertaking as to the economic or financial opportuneness of the transaction or the quality and solvency of the Bank in line with the provisions of Article 6(4) of the Luxembourg law dated 16 July 2019 on prospectuses for securities (the "**Luxembourg Prospectus Law**").

The Notes to which this Base Prospectus relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the Notes offered should conduct their own due diligence on the Notes. If you do not understand the contents of this Base Prospectus you should consult an authorised financial adviser.

Investing in Notes issued under the Programme involves certain risks. For a discussion of the principal risk factors that may affect the ability of the Bank to fulfil its obligations under the Notes, see "Risk Factors" beginning on page 6.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY U.S. STATE SECURITIES LAWS AND MAY NOT BE OFFERED OR SOLD IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR THE BENEFIT OF, U.S. PERSONS (AS DEFINED IN THE SECURITIES ACT) UNLESS AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT IS AVAILABLE AND THE OFFER AND SALE IS MADE IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES AND ANY OTHER JURISDICTION. SEE "*FORM OF THE NOTES*" FOR A DESCRIPTION OF THE MANNER IN WHICH NOTES WILL BE ISSUED.

The Base Prospectus may only be communicated or caused to be communicated in circumstances in which Section 21(1) of the Financial Services and Markets Act 2000, as amended (the "**FSMA**") does not apply. See "*Subscription and Sale*".

Arranger

BofA Securities

Dealers

BNP PARIBAS
BofA Securities
Citigroup
Commerzbank
Deutsche Bank
J.P. Morgan
Mashreqbank psc
Mizuho Securities
Nomura
Société Générale Corporate & Investment Banking
UBS Investment Bank

The date of this Base Prospectus is 1 March 2022.

This Base Prospectus has been prepared on the basis that any offer of Notes in any Member State of the EEA (each, a "**Member State**") will be made pursuant to an exemption under the EU Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. Accordingly, any person making or intending to make an offer of Notes in that Member State which are the subject of an offering contemplated in this Base Prospectus as completed by Final Terms in relation to the offer of those Notes may only do so in circumstances in which no obligation arises for the Bank or Merrill Lynch International (the "**Arranger**") or any Dealer to publish a prospectus pursuant to Article 3 or Article 5 of the EU Prospectus Regulation or a supplement to a prospectus pursuant to Article 23 of the EU Prospectus Regulation in relation to such offer. Neither the Bank, the Arranger nor any Dealer has authorised, nor do they authorise, the making of any offer of Notes in circumstances in which an obligation arises for the Bank, the Arranger or any Dealer to publish a prospectus or a supplement to a prospectus for such offer.

The Bank accepts responsibility for the information contained in this Base Prospectus and the Final Terms or Pricing Supplement for each Tranche (as defined herein) of Notes issued under the Programme and declares that, to the best of its knowledge, the information contained in this Base Prospectus is in accordance with the facts and the Base Prospectus makes no omission of anything likely to affect the import of such information.

Where information has been sourced from a third party, the Bank confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by such third party, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of any third party information contained in this Base Prospectus is stated where such information appears in this Base Prospectus. The information under the heading "*The United Arab Emirates Banking System and Prudential Regulation*", which is given as general information and has been reproduced from publicly available information, save that the Bank confirms that, as far as it is aware and is able to ascertain from publicly available information, no facts have been omitted which would render any reproduced information inaccurate or misleading. The Bank accepts responsibility only for the accurate extraction of such information from publicly available sources.

The accuracy or completeness of the information contained in this Base Prospectus has not been independently verified by the Arranger or by the Dealers or any of their respective directors, officers, affiliates, advisers or agents. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Arranger, the Dealers or any of their respective directors, officers, advisers, agents or affiliates as to the accuracy or completeness of the information contained or incorporated in this Base Prospectus or any other information provided by the Bank in connection with the Programme or the Notes or their distribution. Neither the Arranger nor the Dealers accept any liability in relation to the information contained in this Base Prospectus or any other information provided by the Bank in connection with the Programme or the Notes or their distribution. Neither the Arranger nor the Dealers shall be responsible for, or for investigating, any matter which is the subject of any statement, representation, warranty or covenant of the Bank contained in the Notes, or any other agreement or document relating to the Notes, or for the execution, legality, effectiveness, adequacy, genuineness, validity, enforceability or admissibility in evidence thereof.

This Base Prospectus must be read and construed together with any supplements hereto and, in relation to any Series or Tranche of Notes must be read and construed together with the relevant Final Terms. Any information relating to the Notes which is not included in the Base Prospectus and which is required in order to complete the "necessary information" in relation to a Tranche of Notes will be contained in the relevant Final Terms. In this section the expression "**necessary information**" means, in relation to any Tranche of Notes, the necessary information which is material to an investor for making an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank and of the rights attaching to the Notes and the reasons for the issuance and its impact on the Bank. In relation to the different types of Notes which may be issued under the Programme, the Bank has included in this Base Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Base Prospectus and which can only be determined at the time of an individual issue of a Tranche of Notes.

No person is or has been authorised by the Bank to give any information or to make any representation not contained in or not consistent with this Base Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Bank, the Arranger or any Dealer.

Neither this Base Prospectus nor any other information supplied in connection with the Programme or any Notes: (i) is intended to provide the basis of any credit or other evaluation; or (ii) should be considered as a recommendation by the Bank, the Arranger or any Dealer that any recipient of this Base Prospectus or any other information supplied in connection with the Programme or any Notes should purchase any Notes. Each investor contemplating purchasing any Notes should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Bank. Neither this Base Prospectus nor any other information supplied in connection with the Programme or the issue of any Notes constitutes an offer or invitation by or on behalf of the Bank, the Arranger or any Dealer to any person to subscribe for or to purchase any Notes.

Neither the delivery of this Base Prospectus nor any relevant Final Terms nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the Programme is correct as of any time subsequent to the date indicated in the document containing the same or that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Bank since the date thereof or, if later, the date upon which this Base Prospectus has most recently been supplemented by a supplement to the Base Prospectus or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. The Dealers expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review, *inter alia*, the most recently published documents contained in this Base Prospectus when deciding whether or not to purchase any Notes.

The Notes have not been and will not be registered under the Securities Act or any U.S. State securities laws and may not be offered or sold in the United States or to, or for the account or benefit of, U.S. persons (as defined in the Securities Act) except in certain transactions exempt from the registration requirements of the Securities Act. See "*Subscription and Sale*". The Notes are subject to U.S. tax law requirements.

NEITHER THE PROGRAMME NOR THE NOTES HAVE BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION (THE "SEC"), ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF ANY OFFERING OF NOTES OR THE ACCURACY OR ADEQUACY OF THIS BASE PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

All applicable provisions of the FSMA, and all secondary legislation made pursuant to it, must be complied with. Accordingly, no offer or sale of, and no communication of any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in respect of, any Notes is being made hereby except in circumstances where the prohibition on financial promotion set out at Section 21(1) of the FSMA does not apply whether by reason of the application of the exemptions to such prohibition set out in the Financial Services and Markets Act 2000 (Financial Promotion Order) 2005 (the "**Promotions Order**") or otherwise. In the UK, this Base Prospectus is only being distributed and made available to, and is only directed at, investment professionals within the meaning of Article 19(5) of the Promotions Order, and any other person into whose possession this Base Prospectus comes must not and should not take any action in respect of matters set out herein in respect to the Notes or otherwise. In the UK, persons not having professional experience in matters relating to investments of the type represented by the Notes should not rely on this Base Prospectus.

This Base Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Base Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. The Bank, the Arranger and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and the Bank, the Arranger and the Dealers do not assume any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Bank, the Arranger or the Dealers which would permit a public offering of any Notes or distribution of this Base Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Base Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Base Prospectus or any Notes may come must inform themselves about, and observe any such restrictions on the distribution of this Base Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Base Prospectus and the offer or sale of Notes in the United States, the EEA, the UK, Japan, the People's Republic of China (the "**PRC**"), Italy, Singapore, the Kingdom of Saudi Arabia, the United Arab Emirates (excluding the Dubai International Financial Centre) and the Dubai International Financial Centre; see "*Subscription and Sale*".

Unless otherwise specified in the Final Terms or any Pricing Supplement applicable to the Notes in a Series, the Notes in a Series will initially be represented by Global Notes (as defined below), which will be, on or about the relevant Issue Date, deposited with a depositary or common depositary for the accounts of Clearstream Banking S.A. ("**Clearstream, Luxembourg**") and/or Euroclear Bank SA/NV ("**Euroclear**", together with Clearstream, Luxembourg, the "**Clearing Systems**"). Beneficial interests in Global Notes will be exchangeable, in whole but not in part, for Definitive Notes in bearer form under the limited circumstances described below.

Global Notes may also be deposited with any other clearing system or may be delivered outside any clearing system, **provided that** the method of such delivery has been agreed between the Bank, the Issuing and Principal Paying Agent and the relevant Dealer(s). Notes that are to be credited to one or more clearing systems on issue will be registered in the name of a nominee or nominees for such clearing systems. Beneficial interests in Global Notes held by Euroclear and/or Clearstream, Luxembourg will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and/or Clearstream, Luxembourg and their participants.

The Notes may not be a suitable investment for all investors. Each potential investor in the Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and professional advisers, whether it:

(a) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained or incorporated by reference in this Base Prospectus or any applicable supplement;

(b) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(c) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including Notes where the currency for principal or interest payments is different from the potential investor's currency;

(d) understands thoroughly the terms of the Notes and be familiar with the behaviour of financial markets; and

(e) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

Some Notes are complex financial instruments. Sophisticated institutional investors generally do not purchase complex financial instruments as stand-alone investments. They purchase complex financial instruments as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of the Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Legal investment considerations may restrict certain investments. The investment activities of certain investors are subject to investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (1) Notes are legal investments for it; (2) Notes can be used as collateral for various types of borrowing; and (3) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of Notes under any applicable risk-based capital or similar rules.

In the case of any Notes which are to be admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA in circumstances which would otherwise require the publication of a prospectus under the EU Prospectus Regulation, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of such Notes).

This Base Prospectus contains certain forward-looking statements. The words "anticipate", "believe", "expect", "intend", "targets", "aims", "estimate", "project", "will", "would", "may", "could", "continue" and similar expressions are intended to identify forward-looking statements. All statements other than statements of historical fact included in this Base Prospectus, including, without limitation, those regarding the financial position, business strategy, management plans and objectives for future operations of the Bank are forward-looking statements. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Bank's actual results, performance or achievements, or industry results, to be materially different from those expressed or implied by these forward-looking statements.

The requirement to publish a base prospectus under the EU Prospectus Regulation only applies to Notes which are to be admitted to trading on a regulated market for the purposes of EU MiFID II in the EEA and/or offered to the public in the EEA other than in circumstances where an exemption is available under Article 4 of the EU Prospectus Regulation. References in this Base Prospectus to "Exempt Notes" are to Notes issued by the Bank for which no base prospectus is required to be published under the EU Prospectus Regulation. The Exempt Notes do not form part of this Base Prospectus for the purposes of the EU Prospectus Regulation and the CSSF has neither approved nor reviewed information contained in this Base Prospectus in connection with Exempt Notes.

All references in this document to "**U.S. dollars**", "**U.S.$**" and "**$**" are references to United States dollars, all references to "**UAE dirham**" and "**AED**" are references to United Arab Emirates dirham, all references to "**Renminbi**", "**RMB**" or "**CNY**" are to the lawful currency of the PRC (which, for the purposes of this Base Prospectus, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan) and all references to "**euro**" and "**€**" are references to the currency introduced at the start of the third stage of the Treaty on the functioning of the European Community, as amended from time to time. The UAE dirham has been pegged to the U.S. dollar since 22 November 1980. The midpoint between the official buying and selling rates for the UAE dirham is at a fixed rate of AED 3.6725 = U.S.$1.00.

References in this Base Prospectus to "**Final Terms**" shall, in the case of a Tranche of Exempt Notes, be read and construed as a reference to the applicable Pricing Supplement, unless the context requires otherwise.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

This Base Prospectus may not be distributed in the Kingdom of Saudi Arabia except to such persons as are permitted under the Rules on the Offer of Securities and Continuing Obligations issued by the Capital Market Authority of the Kingdom of Saudi Arabia (the "**Capital Market Authority**").

The Capital Market Authority does not make any representations as to the accuracy or completeness of this Base Prospectus and expressly disclaims any liability whatsoever for any loss arising from, or incurred in reliance upon, any part of this Base Prospectus. Prospective purchasers of the Notes should conduct their own due diligence on the accuracy of the information relating to the Notes. If a prospective investor does not understand the contents of this Base Prospectus he or she should consult an authorised financial adviser.

STABILISATION

IN CONNECTION WITH THE ISSUE OF ANY TRANCHE OF NOTES, THE DEALER OR DEALERS (IF ANY) NAMED AS STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN THE RELEVANT FINAL TERMS MAY OVER ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, STABILISATION MAY NOT NECESSARILY OCCUR.

ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT TRANCHE OF NOTES IS MADE AND, IF BEGUN, MAY CEASE AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT TRANCHE OF NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT TRANCHE OF NOTES. ANY STABILISATION ACTION OR OVER ALLOTMENT MUST BE CONDUCTED BY THE RELEVANT STABILISING MANAGER(S) (OR PERSONS ACTING ON BEHALF OF ANY STABILISING MANAGER(S)) IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

IMPORTANT – EEA RETAIL INVESTORS

If the Final Terms in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the EEA. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or (ii) a customer within the meaning of Directive (EU) 2016/97 ("**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II. Consequently no key information document required by Regulation (EU) No 1286/2014 (the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.

IMPORTANT – UK RETAIL INVESTORS

If the Final Terms in respect of any Notes includes a legend entitled "Prohibition of Sales to UK Retail Investors", the Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law of the UK by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

PRODUCT GOVERNANCE UNDER EU MiFID II

A determination will be made at the time of issue about whether, for the purpose of the product governance rules under EU Delegated Directive 2017/593 (the "**EU MiFID II Product Governance Rules**"), any Dealer subscribing for a Series or Tranche of Notes is a manufacturer in respect of that Series or Tranche, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the EU MiFID II Product Governance Rules.

The Final Terms in respect of any Notes will include a legend entitled "EU MiFID II Product Governance" which will outline each manufacturer's product approval process, the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

PRODUCT GOVERNANCE UNDER UK MiFIR

A determination will be made in relation to each issue about whether, for the purpose of the UK MiFIR product governance rules set out in the FCA Handbook Product Intervention and Product Governance

Sourcebook (the "**UK MiFIR Product Governance Rules**"), any Dealer subscribing for any Notes is a manufacturer in respect of such Notes, but otherwise neither the Arranger nor the Dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MiFIR Product Governance Rules.

The Final Terms in respect of any Notes may include a legend entitled "UK MiFIR Product Governance" which will outline the target market assessment in respect of the Notes and which channels for distribution of the Notes are appropriate. Any distributor should take into consideration the target market assessment; however, a distributor subject to the UK MiFIR Product Governance Rules is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the target market assessment) and determining appropriate distribution channels.

NOTIFICATION UNDER SECTION 309B(1)I OF THE SECURITIES AND FUTURES ACT (CHAPTER 289 OF SINGAPORE)

The Final Terms in respect of any Tranche of Notes may include a legend entitled "*Singapore Securities and Futures Act Product Classification*" which will state the product classification of the Notes pursuant to Section 309B(1) of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "**SFA**"). The Bank will make a determination in relation to each issue about the classification of the Notes being offered for the purposes of section 309B(1)(a). Any such legend included on the relevant Final Terms will constitute notice to "relevant persons" for the purposes of Section 309B(1)(c) of the SFA.

THE CREDIT RATING AGENCIES

Each of Fitch, Moody's and S&P has rated Mashreqbank and the Programme, and Moody's Investors Service Singapore Pte. Ltd. ("**Moody's Singapore**") has also rated the UAE. Moody's and S&P are established in the EEA and registered under the EU CRA Regulation. Fitch is established in the UK and is registered under the UK CRA Regulation. Moody's Singapore is not established in the European Union or in the UK and has not applied for registration under the EU CRA Regulation or the UK CRA Regulation. The rating issued by Moody's Singapore has been endorsed by Moody's in accordance with the EU CRA Regulation. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

SUPPLEMENTAL INFORMATION

The Bank has undertaken that, in connection with the listing of the Notes on the official list of the Luxembourg Stock Exchange, if there shall occur a significant new factor, material mistake or inaccuracy relating to the information included in this Base Prospectus which is capable of affecting the assessment of any Notes, the Bank will prepare or procure the preparation of a supplement to this Base Prospectus to be approved by the CSSF in accordance with Article 23 of the EU Prospectus Regulation or, as the case may be, publish a new Base Prospectus, for use in connection with any subsequent issue by the Bank of Notes to be listed on the official list of the Luxembourg Stock Exchange and shall supply to the Arranger and each Dealer such number of copies of such supplement hereto as such Arranger and/or Dealer may reasonably request. Statements contained in any supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to supersede statements contained in this Base Prospectus (or any earlier supplement) or in a document which is incorporated by reference in this Base Prospectus.

EU BENCHMARKS REGULATION

Interest and/or other amounts payable under the Notes may be calculated by reference to certain reference rates. Any such reference rate may constitute a benchmark for the purposes of Regulation (EU) 2016/1011 (the "**EU Benchmarks Regulation**"). If any such reference rate does constitute such a benchmark, the Final Terms will indicate whether or not the benchmark is provided by an administrator included in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of the EU Benchmarks Regulation. The registration status of any administrator under the EU Benchmarks Regulation is a matter of public record and, save where required by applicable law, the Bank does not intend to update the Final Terms to reflect any change in the registration status of the administrator.

ENFORCEMENT OF FOREIGN JUDGMENTS

The Bank is a public shareholding company incorporated with limited liability in accordance with the laws of the UAE and the majority of its directors reside in the UAE. All or a substantial portion of the assets of the Bank and its directors are located in the UAE. As a result, it may not be possible for investors to: (a) effect service of process upon the Bank or any such directors outside the UAE; (b) enforce against any of them, in courts of jurisdiction other than the UAE, judgments obtained in such courts that are predicated upon the laws of such other jurisdictions; or (c) enforce against any of them, in UAE courts, judgments obtained in jurisdictions other than the UAE, including judgments on the Deed of Covenant in the courts of England and judgments obtained in the United States predicated upon the civil liability provisions of the federal securities laws of the United States.

The Deed of Covenant, the Agency Agreement and the Notes are governed by, and construed in accordance with, English law (save for the subordination provisions of the Notes, which are subject to the application of mandatory provisions of the laws and regulations of the UAE) and disputes in respect of the Deed of Covenant, the Agency Agreement and the Notes may be settled by arbitration under the rules of the London Court of International Arbitration in London, England. In addition, under the Conditions, the Bank has agreed to: (i) submit to the jurisdiction of the courts of England for the purposes of any suit, action or proceeding arising out of or related to the Notes and the Coupons; and (ii) appoint an agent for service of process in England. See "*Terms and Conditions of the Notes — Governing Law and Jurisdiction*". However, there is a risk that the courts of the UAE may only recognise a choice of law other than the law of, and applicable in, the UAE if they are satisfied that there exists an appropriate nexus between the contract expressed to be governed by such law and the foreign law system chosen. Further, the courts of the UAE will not honour any provision of any foreign law system they do recognise as validly chosen which is contrary to Islamic Shari'a jurisprudence, public order or morals or to any mandatory law of, or applicable in, the UAE. See further "*Risk Factors — Risk Factors relating to the legal and regulatory environment — UAE law and courts and the enforcement of foreign judgments in the Emirate of Dubai*".

CONTENTS

GENERAL DESCRIPTION OF THE PROGRAMME

This overview constitutes a general description of the Programme for the purposes of Article 25(1) of Commission Delegated Regulation (EU) No. 2019/980, as amended. This overview must be read as an introduction to this Base Prospectus and any decision to invest in the Notes should be based on a consideration of this Base Prospectus as a whole. This general description does not purport to be complete and is taken from, and is qualified in its entirety by, the remainder of this Base Prospectus and, in relation to the terms and conditions of any particular Tranche of Notes, the relevant Final Terms. Capitalised terms used herein have the same meanings given to them in "Form of the Notes" and "Terms and Conditions of the Notes".

Issuer:	Mashreqbank psc, a public shareholding company incorporated with limited liability in the United Arab Emirates.
Issuer LEI:	5493000SA3K24EQKA103.
Description:	Euro Medium Term Note Programme.
Arranger:	Merrill Lynch International.
Dealers:	BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Mashreqbank psc, Merrill Lynch International, Mizuho International plc, Nomura International plc, Société Générale, UBS AG London Branch and any other Dealers appointed in accordance with the Dealership Agreement.
Issuing and Principal Paying Agent:	The Bank of New York Mellon, London Branch.
Programme Amount:	Up to U.S.$5,000,000,000 (or its equivalent in other currencies) aggregate principal amount of Notes outstanding at any one time. The Bank may increase the amount of the Programme in accordance with the terms of the Dealership Agreement.
Risk Factors:	There are certain factors that may affect the Bank's ability to fulfil its obligations under the Notes issued under the Programme. In addition, there are certain factors which are material for the purpose of assessing the market risks associated with the Notes issued under the Programme. These include the fact that the Notes may not be a suitable investment for all investors, certain risks relating to the structure of a particular Series of Notes and certain market risks. See "*Risk Factors*".
Issuance in Series:	Notes will be issued in Series. Each Series may comprise one or more Tranches issued on different issue dates. The Notes of each Series will all be subject to identical terms, except that the issue date and the amount of the first payment of interest may be different in respect of different Tranches. The Notes of each Tranche will all be subject to identical terms in all respects. Each Tranche of Notes issued under the Programme will be subject to the approval and be authorised by a resolution of the Board of Directors of the Bank.
Currencies:	Subject to any applicable legal and/or regulatory and/or central bank restrictions, the Notes may be denominated in any currency agreed between the Bank and the relevant Dealer.
Certain Restrictions:	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements

	from time to time (see "*Subscription and Sale*") including the restrictions applicable at the date of this Base Prospectus.
Redenomination:	The relevant Final Terms may provide that certain Notes may be redenominated in euro. The relevant provisions applicable to any such redenomination are contained in Condition 20 (*Redenomination, Renominalisation and Reconverting*).
Maturities:	Such maturities as may be agreed between the Bank and the relevant Dealer, subject to such minimum or maximum maturities as may be allowed or required from time to time by the relevant central bank (or equivalent body) or any laws or regulations applicable to the Bank or the relevant currency.
Issue Price:	Notes may be issued at any price and either on a fully-paid or a partly-paid basis.
Form of Notes:	Bearer Notes. Each Tranche of Notes will initially be in the form of either a Temporary Global Note (as defined herein) or a Permanent Global Note (as defined herein), in each case as specified in the relevant Final Terms. Each Global Note (a "**Global Note**") will be deposited on or around the relevant issue date with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system. Each Temporary Global Note will be exchangeable for a Permanent Global Note or, if so specified in the relevant Final Terms, for Definitive Notes. Each Permanent Global Note will be exchangeable for Definitive Notes in accordance with its terms. Definitive Notes will, if interest-bearing, have Coupons attached and, if appropriate, a Talon for further Coupons.
Interest:	The Notes may be interest-bearing or non interest-bearing. Interest (if any) may accrue at a fixed rate or a floating rate. In respect of each Tranche of Notes, the date from which interest becomes payable and the dates for interest, the maturity date, the repayment procedures and (in the case of Fixed Rate Notes only) an indication of yield will be specified in the relevant Final Terms.
Redemption:	The relevant Final Terms will indicate either that the relevant Notes cannot be redeemed prior to their stated maturity (other than for taxation reasons or following an Event of Default) or that such Notes will be redeemable at the option of the Bank and/or the Noteholders upon giving notice to the Noteholders or the Bank, as the case may be, on a date or dates specified prior to such stated maturity and at a price or prices and on such other terms as may be agreed between the Bank and the relevant Dealer.
Denomination of Notes:	Notes will be issued in such denominations as may be agreed between the Bank and the relevant Dealer save that the minimum denomination of each Note admitted to trading on a regulated market within the EEA or offered to the public in a Member State of the EEA or offered to the public either in a Member State of the European Economic Area or in the UK in circumstances which require the publication of a prospectus under either the EU Prospectus Regulation or Regulation (EU) 2017/1129 as it forms part of domestic law in the UK by virtue of the EUWA will be €100,000 (or its equivalent in a relevant Specified Currency), subject to compliance with all applicable legal and/or regulatory and/or central bank requirements relating to a Specified Currency; however, for so long as any Series of Notes is represented by a Global Note and Euroclear and Clearstream, Luxembourg so permit, such Series of Notes shall be tradable in minimum denominations of €100,000 and integral multiples of €1,000 thereafter. If a Global Note is exchanged for a Definitive Note at the option of the

	Noteholders, the Notes shall be tradable only in principal amounts of at least €100,000.
Taxation:	All payments in respect of the Notes will be made free and clear of withholding taxes imposed by the UAE unless the withholding is required by law. In that event, the Bank will (subject as provided in Condition 11 (*Taxation*)) pay such additional amounts as will result in the Noteholders receiving such amounts as they would have received in respect of such Notes had no such withholding been required.
Negative Pledge:	The terms of the Senior Notes will have the benefit of a negative pledge provision as described in Condition 5 (*Negative Pledge*).
Cross Default:	The terms of the Senior Notes will contain a cross default provision as described in Condition 12 (*Events of Default*).
Status of the Notes:	Notes may be issued on an unsubordinated or subordinated basis, as specified in the relevant Final Terms. The Notes issued on an unsubordinated basis will constitute direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Bank and will rank *pari passu* among themselves and at least *pari passu* with the claims of the Bank's other unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured creditors save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application. Notes issued on a subordinated basis will constitute direct, conditional and unsecured obligations of the Bank and rank *pari passu* among themselves. The payment obligations of the Bank in respect of Subordinated Notes (whether on account of principal, interest or otherwise) will be subordinated to all unsubordinated payment obligations of the Bank but will rank *pari passu* with all other subordinated payment obligations of the Bank which do not rank or are not expressed by their terms to rank junior to the payment obligations under the Subordinated Notes and in priority to all claims of shareholders of the Bank.
Listing, Approval and Admission to Trading:	Application has been made to the CSSF to approve this document as a base prospectus. The CSSF assumes no responsibility as to the economic and financial soundness of the transactions contemplated by this Base Prospectus or the quality or solvency of Mashreqbank pursuant to Article 6(4) of the Luxembourg Prospectus Law. Application has also been made for Notes (other than Exempt Notes) issued under the Programme to be listed on the official list of the Luxembourg Stock Exchange. Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, which is a regulated market for the purposes of EU MiFID II. The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed between the Bank and the relevant Dealer(s) in relation to each Series. The relevant Final Terms will state whether or not the relevant Notes are to be admitted to listing, trading and/or quotation and, if so, on which stock exchange(s), competent authorities and/or quotation systems.

Rating:	Tranches of Notes issued under the Programme will be rated or unrated. Where a Tranche of Notes is rated, such rating will not necessarily be the same as the rating(s) described above or the rating(s) assigned to Notes already issued. Where a Tranche of Notes is rated, the applicable rating(s) will be specified in the relevant Final Terms. Whether or not each credit rating applied for in relation to a relevant Tranche of Notes will be (1) issued or endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation or by a credit rating agency which is certified under the EU CRA Regulation and/or (2) issued or endorsed by a credit rating agency established in the UK and registered under the UK CRA Regulation or by a credit rating agency which is certified under the UK CRA Regulation will be disclosed in the Final Terms. In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not (1) issued by a credit rating agency established in the EEA and registered under the EU CRA Regulation or (2) provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation or (3) provided by a credit rating agency not established in the EEA but which is certified under the EU CRA Regulation. In general, UK regulated investors are restricted from using a rating for regulatory purposes if such rating is not (1) issued by a credit rating agency established in the UK and registered under the UK CRA Regulation or (2) provided by a credit rating agency not established in the UK but is endorsed by a credit rating agency established in the UK and registered under the UK CRA Regulation or (3) provided by a credit rating agency not established in the UK but which is certified under the UK CRA Regulation.
Governing Law:	The Notes and any non-contractual obligations arising out of or in connection with the Notes will be governed by, and shall be construed in accordance with, English law (save for the subordination provisions therein, which are subject to the application of mandatory provisions of the laws and regulations of the UAE).
Distribution:	Notes will be issued on a syndicated or non-syndicated basis.
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Notes in the United States, the EEA (see the Public Offer Selling Restrictions under the EU Prospectus Regulation), the UK, the PRC (excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan), Japan, Italy, Singapore, the UAE (excluding the Dubai International Financial Centre), the Dubai International Financial Centre and the Kingdom of Saudi Arabia and in such other jurisdictions as may be relevant in connection with the offering and sale of a particular Tranche of Notes, see "*Subscription and Sale*".
United States Selling Restrictions:	Regulation S, Category 2, TEFRA C or TEFRA D, as specified in the relevant Final Terms.
Use of proceeds:	The net proceeds from each issue of Notes will be used for the general financing purposes of the Bank. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the relevant Final Terms.

RISK FACTORS

The following factors may affect the ability of the Bank to fulfil its obligations in respect of Notes issued under the Programme. All of these factors are contingencies which may or may not occur and the Bank is not in a position to express a view on the likelihood of any such contingency occurring.

In addition, prior to making an investment decision, prospective purchasers of the Notes should carefully consider, along with the other matters referred to in this Base Prospectus, the following risks associated with investment in UAE entities generally and in securities issued by the Bank specifically, as the case may be, which could be material for the purpose of assessing the market risks associated with Notes issued under the Programme. Prospective investors should pay particular attention to the fact that the Bank is governed by a legal and regulatory environment in the UAE which in some respects may differ from that prevailing in other countries.

Prospective investors should note that the inability of the Bank to pay interest, principal or other amounts on or in connection with any Notes may occur for reasons other than those stated below. Prospective investors should also read the detailed information set out elsewhere in this Base Prospectus and reach their own views prior to making any investment decision. Prospective investors should also consult their own financial and legal advisers about risks associated with an investment in any Notes issued under the Programme and the suitability of investing in such Notes in light of their particular circumstances, without relying on the Bank, the Arranger or the Dealers. Investors are advised to make, and will be deemed by the Dealers and the Bank to have made, their own investigations in relation to such factors before making any investment decisions in relation the Notes.

Risks related to the Bank's business activities and industry

Impact of recent macroeconomic and financial market conditions

COVID-19

The Bank, in common with other financial institutions, is susceptible to changes in the macroeconomic environment and the performance of financial markets generally. As at the date of this Base Prospectus, the performance of global debt, equity and commodity markets has been volatile, reflecting the ongoing volatility in the macro-economic climate which has had, and which continues to have, a material adverse effect on the world's economies, including the economies of the UAE and other Gulf Cooperation Council ("**GCC**"), states.

Since 2020, the macro-economic environment (both globally and within the UAE) has also been materially affected by the novel coronavirus which causes the disease known as "COVID-19". On 11 March 2020, the World Health Organization officially declared COVID-19 a global pandemic. The resulting restrictions on travel and public transport, requirements for people to remain at home and practice social distancing, and prolonged closures of workplaces have severely disrupted the global economy. The UAE took a number of temporary precautionary and preventative measures to contain the outbreak, including suspending passenger and transit flights, restricting movement within the UAE, closing schools and universities and imposing social distancing. Many of these measures were subsequently removed, although, if there is a further outbreak (for example, in connection with the "Omicron" or any other variant), such measures may need to be reimposed from time to time. The COVID-19 pandemic is ongoing as at the date of this Base Prospectus and the duration, impact and severity of the pandemic cannot be predicted as future variants may be identified with more severe impacts than those of currently known variants. Accordingly, the ultimate impact on global and local economies, (including on the price of oil) is unclear. The economic impact of COVID-19 has already included significant volatility in financial markets and it may lead to lower economic growth in the GCC and globally.

In response to the impact of COVID-19 on their domestic economies, various governments around the world, including the UAE (see further "*The United Arab Emirates Banking System and Prudential Regulation – COVID-19*"), announced fiscal stimulus packages and numerous central banks cut interest rates. Specifically, on 3 March 2020, the U.S. Federal Reserve cut its target range for the federal funds rate by 0.50 per cent. to between 1.00 and 1.25 per cent. and, on 15 March 2020, the range was cut further to between 0 to 0.25 per cent. On 16 March 2020, the UAE Central Bank cut the interest rate applicable to one-week certificates of deposit by 0.75 per cent. to 0.25 per cent. and it also reduced the rates applicable to the interim margin lending facility and the collateralised murabaha facility by 0.50 per cent. On 17 June

2021, the UAE Central Bank increased the official UAE base rate by 0.05 per cent. to 0.15 per cent. Further announcements from central banks across the world could be forthcoming and it is unclear what impact these measures will ultimately have on their respective economies.

Furthermore, the outbreak of the COVID-19 virus resulted in Organization of the Petroleum Exporting Countries ("**OPEC**") Reference Basket price volatility. In early March 2020, OPEC officials proposed a plan to the members of OPEC and other non-OPEC member countries, including Russia, to cut global production by 1.5 per cent. No agreement was reached, ending a three-year partnership between OPEC and major non-OPEC oil exporters. This also resulted in the OPEC countries and other non-OPEC countries, including Russia (collectively, "**OPEC plus**"), failing to extend the agreement of cutting 2.1 million barrels per day that was set to expire at the end of March 2020. In March 2020, Saudi Arabia announced that it would raise oil output and discount its oil in April 2020. As a result, certain oil prices turned negative during April 2020 (with the West Texas Intermediate benchmark falling as low as minus U.S.$37.63 a barrel), as weakened demand as a result of the COVID-19 outbreak, coupled with the actions of Saudi Arabia led to buyers being paid to take oil due to storage capacity concerns. The OPEC Reference Basket price remained depressed throughout the remainder of 2020. Oil prices rose over 2021 as COVID-19 vaccination programmes globally led to increased economic activity and a broad increase in economic growth expectations. A further outbreak or the emergence of a new COVID-19 variant could negatively impact the global economy and cause uncertainty. If current global growth expectations are not realised oil prices may decline. See "*The UAE's economy is highly dependent upon its oil revenue*" below for information regarding recent oil prices.

Oil Price Volatility

Prior to the oil price volatility seen from March 2020 as a result of COVID-19, oil prices had been in a recovery phase following a fall in prices that started in 2014. Between July 2014 and January 2016, international crude oil prices declined dramatically falling by approximately 75 per cent. from a monthly average OPEC Reference Basket price per barrel of U.S.$107.89 in July 2014, to a monthly average price of U.S.$26.50 in January 2016. There was a partial correction in global crude oil prices between 2017 and the start of 2020 (according to the OPEC website, the average price of the OPEC Reference Basket was approximately U.S.$66.11 per barrel for the month of January 2020). In February 2022, the Russian invasion of Ukraine led to sharp rises in oil prices. See "*The UAE's economy is highly dependent upon its oil revenue*" below for further information regarding the fluctuation of oil prices since 2020.

A significant reduction in international oil prices, particularly if they remain low for an extended period, may impact the Bank in a number of ways, including through its exposure to customers whose business is, directly or indirectly, reliant on oil revenue and who become unable to service their debt, through reduced liquidity as deposits from government and government-related entities are withdrawn as these depositors are impacted by low oil prices, and through the impact of low oil prices and the COVID-19 restrictions imposed by the UAE on the UAE's economy and the consequent impact on the Bank's wholesale and retail customers. All of these factors have the potential to impact the Bank's assessment of its expected credit losses and may therefore result in significantly increased impairment losses in future periods, at least until the UAE and other economies to which it is exposed recover from the effects of COVID-19 restrictions and low oil prices. Whilst the direct and indirect impact of the COVID-19 outbreak remains uncertain, there can be no assurance that such impairment losses will not significantly increase for future periods, which in turn could have an adverse effect on the Bank's business, financial condition, results of operations or prospects.

UAE Fiscal Reforms

Additionally, in the UAE, the significant fiscal reforms implemented by the federal government in response to the low oil price environment since 2015 have had, and are expected to continue to have, a significant effect on the UAE economy. The UAE federal government has scaled back capital transfers to government-related entities, reduced government investment, raised electricity and water tariffs and removed fuel subsidies. More recently, lower oil prices and the COVID-19 pandemic have resulted in the UAE cutting its federal spending for 2021 by approximately 5.3 per cent. as compared to 2020. Further, with effect from 1 January 2018, the federal government introduced a value-added tax ("**VAT**") regime in the UAE at a rate of 5 per cent. as part of a broader GCC-wide agreement. The Kingdom of Bahrain joined the GCC VAT regime on 1 January 2019 and Oman implemented VAT on 16 April 2021. Qatar and Kuwait are expected to introduce VAT in the near future. Saudi Arabia, which implemented VAT on 1 January 2018 at the rate of 5 per cent., increased the rate to 15 per cent. effective from 1 July 2020. In addition, on 31 January 2022, the UAE Ministry of Finance announced the introduction of a corporate income tax, which will come into effect on 1 June 2023. See "*Tax changes in the UAE may have an adverse effect on the Bank*" below for further information.

In the UAE, these measures have become an integral part of a broader federal government strategy aimed at rationalising fiscal expenditure generally and reducing fiscal dependency on hydrocarbon related revenues. When taken in totality with the ongoing oil price volatility, the diversion of significant fiscal revenues to the Saudi Arabian-led military intervention in Yemen since 2015 and domestic job losses in both the private and public sectors across the UAE along with the COVID-19 pandemic, the impact on the UAE economy in recent years has been significant.

Volatility on the Financial Markets

During events of extreme volatility witnessed in financial markets since 2014 there have been periods of reduced liquidity, widening credit spreads and a lack of price transparency in credit and capital markets. These adverse market conditions have impacted investment markets both globally and in the UAE, through increased volatility in asset prices, commodity prices, interest rates and exchange rates.

Between December 2015 and December 2018, the U.S. Federal Reserve increased U.S. overnight interest rates by an aggregate 225 basis points (in nine separate increments of 25 basis points each). However, in 2019, the U.S. Federal Reserve decreased U.S. overnight interest rates by an aggregate 75 basis points (in three separate increments of 25 basis points each) and, in March 2020, U.S. overnight interest rates were further cut to near zero in response to the COVID-19 outbreak. In an attempt to stabilise the economy against the negative impact of COVID-19, the U.S. Federal Reserve, through two separate cuts, decreased U.S. interest rates to effectively zero per cent. in March 2020. Similar cuts were announced by a number of other central banks, including the Bank of England which reduced interest rates to 0.1 per cent. in March 2020, and the central banks of countries such as the Kingdom of Saudi Arabia and the Kingdom of Bahrain, all of whom undertook similar action and cut their key rates in March 2020. Given the peg of the UAE dirham to the U.S. dollar, the UAE also undertook similar action and cut its key rates by 50 basis points in the beginning of March 2020 and by an additional 75 basis points on 16 March 2020. However, on 17 June 2021, the UAE increased the base rate by 5 basis points in response to the U.S. Federal Reserve's increase in Interest on Excess Reserves (IOER). Future movements in such rates may adversely impact the Bank's net interest margins and borrowing costs if the Bank is unable to adjust to the volatile interest rate environment.

As a result of market conditions prevailing as at the date of this Base Prospectus, companies to which the Bank has directly extended or continues to extend credit have experienced, and may continue to experience, decreased revenues, financial losses, insolvency, difficulty in obtaining access to financing and increased funding costs and some of these companies have been unable to meet their debt service obligations or other expenses as they become due, including amounts payable to the Bank.

The business, results of operations, financial condition and prospects of the Bank may be materially adversely affected by future periods of unfavourable economic conditions in the other countries of the GCC and emerging markets generally as well as by United States, European and international trading market conditions and/or related factors.

Loan Growth

The Bank's gross loans and advances, including Islamic financing, (before allowances) increased during 2021 and were AED 88,207 million as at 31 December 2021, compared with AED 77,344 million as at 31 December 2020.

The Bank's credit exposure and profile continues to be monitored by the Bank's Board and management to accurately assess credit quality and develop the Bank's credit risk management policies and procedures.

The Bank attracts and retains qualified personnel and trains new personnel appropriately to monitor asset quality and to ensure access to appropriately flexible funding sources that do not impose inappropriate constraints on the Bank's future funding strategy. Furthermore, the development of new products geared towards the Bank's expanding customer profiles, require credit assessment skills and input from personnel, as well as well-developed and established risk management procedures and systems.

There can be no assurance that the Bank will obtain the necessary skills and systems to manage the growth of its business and the related risks in a timely manner. Failure to manage growth successfully and to maintain the quality of its assets and/or flexibility as to funding sources could have a material adverse effect on the business, operations, financial condition or prospects of the Bank and could, in turn, adversely affect the market price and liquidity of the Notes.

Principal Shareholder

As at 31 December 2021, approximately 88.6 per cent. of the capital of the Bank was owned by members of the Al-Ghurair family, either directly or indirectly through companies controlled by them. The Bank emphasises sound corporate governance and maintains independent non-executive directors on its board, as well as a leadership forum comprised of senior managers who are unrelated to the Al-Ghurair family. See "*Management and Employees – Corporate Governance*", "*Management and Employees – Board of Directors*" and "*Management and Employees – Board of Directors – Management Team*". The Bank is also subject to the regulatory regime described in "*The United Arab Emirates Banking System and Prudential Regulation*". Nevertheless, the Al-Ghurair family has the ability to influence the Bank's business significantly through their ability to control actions that require shareholder approval.

Concentration of Deposit Base

Concentrations in the Bank's deposit portfolio subject it to funding risks from withdrawal of large deposits.

As at 31 December 2021, the Bank's 15 largest corporate depositors accounted for 23.7 per cent. of total amounts owed to customers compared with 23.7 per cent. as at 31 December 2020. The Bank intends to reduce the concentration in its deposit base by attracting small and medium enterprises ("**SMEs**") and retail depositors. Failure to reduce such concentration could, however, expose the Bank to increased liquidity risk and have a material adverse effect on the Bank's results of operations and financial condition.

The Bank's Assets and Liabilities Committee ("**ALCO**") meets at least once a month to review liquidity ratios, asset and liability structure, interest rate and foreign exchange exposures, internal and statutory ratio requirements, funding gaps and domestic and international economic and financial market conditions.

Although the Bank considers that it has adequate access to sources of funding, the withdrawal of a significant portion of these large deposits may have an adverse effect on the Bank's financial condition or results of operations as well as its ability to meet the UAE Central Bank target stable resources ratio of 100 per cent.

Liquidity Risk

Liquidity risk is the risk that the Bank will be unable to meet the payment obligations associated with its financial liabilities when they fall due and/or replace funds when they are withdrawn. This could arise from the inability of the Bank to anticipate and provide for unforeseen decreases or changes in funding sources.

An inability on the Bank's part to access funds or to access the markets from which it raises funds may put the Bank's position in liquid assets at risk and lead to it being unable to fund operations adequately. A dislocated credit environment also compounds the risk that the Bank will not be able to access funds at favourable rates. These factors could also lead creditors to form a negative view of the Bank's liquidity, which could result in less favourable credit ratings, higher borrowing costs and reduced access to funds. In addition, because the Bank receives a significant proportion of its funding from customer deposits, the Bank is subject to the risk that customers could withdraw their funds at a rate faster than the rate at which borrowers repay their loans, thus causing further liquidity strain. The Bank's inability to refinance or replace such deposits with alternative funding could materially adversely affect the Bank's liquidity, business, results of operations, financial condition and prospects.

Although the UAE Ministry of Finance and the UAE Central Bank has supported the domestic banking industry in the past, there can be no assurance that either the UAE Ministry of Finance or the UAE Central Bank will provide any additional support to the Bank and the domestic banking industry or initiate support if another major economic disruption were to occur in the future.

The UAE Central Bank adopted a policy of a gradual, phased introduction of the capital and liquidity standards for credit institutions, approved by the Basel Committee on Banking Supervision (the "**Basel Committee**") in response to the 2008 global financial crisis (the "**Basel III Reforms**"). As part of this gradual introduction of Basel III in the UAE, the UAE Central Bank informed certain banks in the UAE that they are obliged to report the Basel III Liquidity Coverage Ratio ("**LCR**") and the Net Stable Funding Ratio ("**NSFR**") to the UAE Central Bank.

The LCR is a metric introduced by the Basel Committee as part of the Basel III Reforms to measure a bank's ability to manage a sustained outflow of customer funds in an acute stress event over a 30-day period. The ratio is calculated by taking a financial institution's stock of unencumbered high-quality liquid assets ("**HQLAs**"), which include low-risk, highly marketable asset classes, designed to provide significant sources of liquidity in such a stress scenario, and dividing them by its projected net cash outflows over the immediately following 30-day period. The LCR requires that banks have sufficient HQLAs in their liquidity buffer to cover the difference between expected cash outflows and expected capped cash inflows over a 30-day stressed period. The Basel III Reforms require that the minimum value of the ratio is 100 per cent. (i.e., an institution's stock of HQLAs should at least equal total net cash outflows) while the UAE Central Bank introduced LCR for the relevant UAE banks in a phased manner, setting an initial benchmark of 60 per cent. upon commencement of LCR compliance, increasing to 100 per cent. as of 1 January 2019. See further "*The United Arab Emirates Banking System and Prudential Regulation – Recent Trends in Banking – Liquidity*". As part of the UAE Central Bank's Targeted Economic Support Scheme ("**TESS**"), banks that are subject to the LCR (such as the Bank) were able to allow their LCR to fall below the regulatory LCR of 100 per cent. provided that the LCR of such banks is higher than or equal to 70 per cent. The changes to the minimum LCR described above are applicable until 30 June 2022 (see further "*The United Arab Emirates Banking System and Prudential Regulation – COVID-19*").

By virtue of the inherent costs associated with LCR compliance and maintaining a sufficient portfolio of HQLAs, the Bank may be at a competitive disadvantage to its peer UAE based financial institutions who are not required to monitor liquidity through LCR, which may have a material adverse effect on its business, results of operations, financial condition and prospects.

Credit Risk

Credit risk is the risk that a customer or counterparty is unable or unwilling to meet its obligations in accordance with agreed terms and in doing so, causes the Bank to incur a financial loss. The Bank manages credit risk by monitoring credit exposures, limiting transactions with specific counterparties, diversifying lending activities, complying with UAE Central Bank regulatory requirements and setting internal concentration limits to avoid undue concentrations of risk with individuals or groups of customers in specific locations or businesses. Concentration in the Bank's loan portfolios subject it to risks from default by its larger borrowers and/or from exposures to particular sectors of the UAE economy.

As at 31 December 2021, the Bank's large exposure (greater than AED 750 million) and advances, including Islamic financing, accounted for 26.8 per cent. of gross loans and advances, including Islamic financing, compared with 25 per cent. as at 31 December 2020. The Bank continues to place emphasis on credit quality and has in place management controls to monitor and manage credit exposure. A failure to achieve this could have a material adverse effect on the Bank's results of operations and financial condition.

As at 31 December 2021, the Bank's assets and liabilities stood at AED 89,064 million and AED 74,603 million, respectively, in the UAE, AED 37,079 million and AED 31,949 million, respectively, in the other Middle Eastern countries, and AED 50,911 million and AED 49,477 million, respectively, outside the region. The Bank regularly reviews and monitors compliance with lending limits to individual financial institutions and country limits.

Credit risk arises from adverse changes in credit quality and recoverability of loans and advances due from counterparties and is inherent in a wide range of the Bank's businesses. Credit risk arises from deterioration in the credit quality of specific counterparties or borrowers of the Bank, from a general deterioration in local or global economic conditions or from systemic risks within the financial sector.

The Bank's gross non-performing loans to gross loans ratio increased from 5.1 per cent. for the year ended 31 December 2020 to 5.2 per cent. for the year ended 31 December 2021. The Bank's loan-loss coverage level decreased from 130 per cent. for the year ended 31 December 2020 to 128 per cent. as at 31 December 2021.

The Bank will have to continue to place emphasis on credit quality and to further develop financial and management controls to monitor this credit exposure. A failure to achieve this could have a material adverse effect on the Bank's results of operations, financial condition and prospects which could, in turn, adversely affect the market price and liquidity of the Notes.

Real Estate Exposure

Real estate exposures of the Bank in the UAE represent 16 per cent of the total deposits in the UAE and combined exposures to the real estate and construction sector represent 18.5 per cent. of the Bank's total gross loans and advances, including Islamic financing, as at 31 December 2021, while total funded real estate and construction exposure stood at AED 16.3 billion.

A decrease in real estate prices or a default of the Bank's main real estate related clients could have an adverse effect on the financial condition or results of operations of the Bank.

The Bank has credit-related contingent items and commitments that may lead to potential losses

As part of its normal banking business, the Bank issues loan commitments, guarantees, letters of credit and other financial products, all of which are accounted for as off-balance sheet until such time as they are funded or cancelled. Although these commitments are largely trade contingent and therefore off-balance sheet, they nonetheless subject the Bank to related credit and liquidity risks. While the Bank anticipates that only a portion of the Bank's obligations in respect of these commitments will be triggered, the Bank may become obligated to make payments in respect of a greater portion of such commitments, which could have a material adverse effect on the Bank's funding needs and credit risks. As at 31 December 2021, the Bank had AED 57,442 million in such contingent liabilities.

Interest Rate Risk

The Bank is exposed to risks resulting from changes in interest rates that apply to the Bank's assets and liabilities. In addition, mismatches between the interest rates on its interest-bearing liabilities and interest-earning assets exposes the Bank to basis risk. Although: (i) the Bank monitors its interest rate sensitivity by analysing the composition of its assets and liabilities; and (ii) both deposits and loans often reprice simultaneously providing a natural hedge which reduces the interest rate exposure, sharp interest rate movements could have a material adverse effect on the business, operations, financial condition or prospects of the Bank and could, in turn, adversely affect the market price and liquidity of the Notes.

Foreign Currency Risks

The Bank is exposed to the effects of fluctuations in foreign currency exchange rates on its financial position and cash flows. The UAE dirham is the Bank's functional currency. Almost all of the Bank's assets and liabilities are denominated in UAE dirham or U.S. dollars and are match funded in the same currency. As a result, the Bank is exposed to limited structural cross-currency foreign currency risk. However, the Bank currently maintains a position in U.S. dollar within limits approved by the Bank's ALCO.

Dependence on Key Personnel

The Bank's success in growing its business depends, in part, on its ability to continue to attract, retain and motivate qualified and skilled personnel. The Bank also relies on its senior management for the implementation of its strategy and day-to-day operations. As competition for skilled personnel, especially at the senior management level, is intense, the Bank continues to take measures to attract, motivate and retain skilled personnel.

Competition in the UAE for personnel with relevant expertise is also intense due to a disproportionately low number of available qualified and/or experienced individuals compared with demand. If the Bank is unable to retain key members of its senior management and cannot hire new qualified personnel replacements in a timely manner, this could have a material adverse effect on the business, results of operations, financial condition or prospects of the Bank and could, in turn, adversely affect the market price and liquidity of Notes.

The Bank's business is dependent on its information and technology systems which are prone to potential cyber attacks

In common with other financial institutions globally, the threat to the security of the Bank's information and customer data from cyber attacks is real and continues to grow. The quantity of sensitive financial and personal identifiable information stored by financial institutions globally makes them potential targets of cyber attacks. Activists, rogue states and cyber criminals are amongst those targeting computer systems around the world. Risks to technology and cyber security change rapidly and require continued focus and investment to manage and the Bank acts accordingly and takes appropriate steps on an ongoing basis to combat such threats and minimise such risks by implementing cybersecurity controls. Given the increasing sophistication and scope of potential cyber attacks however, it is possible that future attacks may lead to significant breaches of security. Failure by the Bank or the Bank's customers to adequately manage cybersecurity risk and continually review and update current processes in response to new threats could disrupt the Bank's business, result in the disclosure of confidential information, create significant financial and/or legal exposure and damage the Bank's reputation and/or brands, which could have a material adverse effect on the Bank's business, operations and financial condition.

Risk Management Systems

Measurement and management of various types of risks requires substantial resources. Although management believes that the Bank's information technology and management information systems, policies and procedures are adequate for the purposes of measuring, monitoring and managing the Bank's exposure to credit, operational, liquidity, interest rate, foreign exchange and other risks in the context of its existing business, as the Bank's business continues to grow and develop, the Bank's risk profile also continues to evolve. Management continually assesses the Bank's risk management infrastructure and resources, and has made considerable investments in information technology over the last few years. In the event that the Bank's risk management systems are not developed in line with the growth in the Bank's business and related shifts in its risk exposures, this could have a material adverse effect on the business, operations, financial condition and prospects of the Bank and could, in turn, adversely affect the market price and liquidity of the Notes.

Operational Risk Management

Operational risk is the risk of loss, whether direct or indirect, due to inadequate or failed internal processes or systems, human error, fraud or external events. Operational risk includes legal and regulatory risk, business process and change risk, fiduciary or disclosure breaches and technology failure. The Bank has developed policies, processes and assessment methodologies such as Risk & Control Self-Assessments ("**RCSA**"), to ensure that operational risk is appropriately identified and managed with effective controls. Despite having RCSA policies and controls in place, it is not possible to eliminate any of the operational risks entirely. Operational risks are inherent in the Bank's day-to-day businesses, may lead to unexpected losses and could have a material adverse effect on the Bank's business, results of operations, financial condition and prospects which could, in turn, adversely affect the market price and liquidity of the Notes.

Lack of Information and Risk Assessments

Statistical information published in the UAE relating to the economy generally or to specific economic sectors and corporate or financial information relating to companies and other economic enterprises is not as comprehensive as that found in established market economies. Thus, obtaining statistical, corporate and financial information, including audited financial statements and recognised debt rating reports, available to the Bank relating to its prospective corporate borrowers or retail clients makes the assessment of credit risk, including the valuation of collateral, more challenging. Although the establishment of the Al Etihad Credit Bureau has improved the quality of credit information available to UAE banks, the credit bureau remains in a developing stage. See further "*The United Arab Emirates Banking System and Prudential Regulation – Recent trends in banking – Establishing a credit bureau in the UAE*". Accordingly, the Bank, in common with other UAE banks, is frequently required to make risk management assessments in the absence of the quality and quantity of information available to lenders in other, more developed markets.

Although the Bank ordinarily makes an estimation of the net realisable value of collateral on the basis of which it determines applicable impairment assessment and collateralisation requirements, the absence of additional statistical, corporate and financial information may impact the accuracy of the Bank's assessments of credit risk, thereby increasing the risk of under-provisioning and decreasing the likelihood that the Bank would be able to enforce any security in respect of the corresponding loan or that the relevant collateral will have a value commensurate to the loan secured on it.

Exposure to Sovereigns

Debt securities held by the Bank include securities issued by the UAE Central Bank, UAE banks and OECD sovereigns, as well as a range of high-grade bonds. Under statutory requirements, the Bank's foreign branches are required to maintain a certain portion of their deposits in sovereign or public sector bonds to meet regulatory reserve requirements. Moreover, since the Bank has scaled down its corporate lending at certain overseas branches, liquid funds at overseas branches have typically been invested in securities of the respective governments. The debt securities held by overseas branches constituted 17.1 per cent. of the investment portfolio as at 31 December 2021. As a result, a failure by the UAE Central Bank or any other relevant overseas government could adversely affect the business, results of operations, financial condition or prospects of the Bank and could, in turn, adversely affect the market price and liquidity of Notes.

Risks relating to Notes denominated in Renminbi

Notes denominated in Renminbi ("**RMB Notes**") may be issued under the Programme. A description of risks which may be relevant to an investor in RMB Notes is set out below:

Renminbi is not freely convertible and there are significant restrictions on the remittance of Renminbi into and out of the PRC which may adversely affect the liquidity of RMB Notes

Renminbi is not freely convertible at present. The government of the PRC (the "**PRC Government**") continues to regulate conversion between Renminbi and foreign currencies, including the Hong Kong dollar.

However, there has been significant reduction in control by the PRC Government in recent years, particularly over trade transactions involving import and export of goods and services as well as other frequent routine foreign exchange transactions. These transactions are known as current account items.

On the other hand, remittance of Renminbi into and out of the PRC for the settlement of capital account items, such as capital contributions, debt financing and securities investment is generally only permitted upon obtaining specific approvals from, or completing specific registrations or filings with, the relevant authorities on a case-by-case basis and is subject to a strict monitoring system. Regulations in the PRC on the remittance of Renminbi into and out of the PRC for settlement of capital account items are being adjusted from time to time to match the policies of the PRC Government.

Although the People's Bank of China (**"PBoC"**) has implemented policies improving accessibility to Renminbi to settle cross-border transactions in the past, there is no assurance that the PRC Government will liberalise control over cross-border remittance of Renminbi in the future, that the schemes for Renminbi cross-border utilisation will not be discontinued or that new regulations in the PRC will not be promulgated in the future which have the effect of restricting or eliminating the remittance of Renminbi into or out of the PRC. Despite Renminbi internationalisation pilot programme and efforts in recent years to internationalise the currency, there can be no assurance that the PRC Government will not impose interim or long-term restrictions on the cross-border remittance of Renminbi. In the event that funds cannot be repatriated out of the PRC in Renminbi, this may affect the overall availability of Renminbi outside the PRC and the ability of the Bank to source Renminbi to finance its obligations under Notes denominated in Renminbi.

There is only limited availability of Renminbi outside the PRC, which may affect the liquidity of the RMB Notes and the Bank's ability to source Renminbi outside the PRC to service RMB Notes

As a result of the restrictions by the PRC Government on cross-border Renminbi fund flows, the availability of Renminbi outside the PRC is limited. While the PBoC has entered into agreements (the "**Settlement Arrangements**") on the clearing of Renminbi business with financial institutions (the "**Renminbi Clearing Banks**") in a number of financial centres and cities, including but not limited to Hong Kong, has established the Cross Border Inter Bank Payments System (CIPS) to facilitate cross-border Renminbi settlement and is further in the process of establishing Renminbi clearing and settlement mechanisms in several other jurisdictions, the current size of Renminbi denominated financial assets outside the PRC is limited.

There are restrictions imposed by PBoC on Renminbi business participating banks in respect of cross-border Renminbi settlement, such as those relating to direct transactions with PRC enterprises. Furthermore, Renminbi business participating banks do not have direct Renminbi liquidity support from PBoC, although PBoC has gradually allowed participating banks to access the PRC's onshore interbank market for the purchase and sale of Renminbi. The Renminbi Clearing Banks only have limited access to onshore liquidity support from PBoC for the purpose of squaring open positions of participating banks for limited types of transactions and are not obliged to square for participating banks any open positions resulting from other foreign exchange transactions or conversion services. In cases where the participating banks cannot source sufficient Renminbi through the above channels, they will need to source Renminbi from outside the PRC to square such open positions.

Although it is expected that the offshore Renminbi market will continue to grow in depth and size, its growth is subject to many constraints as a result of PRC laws and regulations on foreign exchange. There is no assurance that new PRC regulations will not be promulgated or the Settlement Arrangements will not be terminated or amended in the future which will have the effect of restricting availability of Renminbi outside the PRC. The limited availability of Renminbi outside the PRC may affect the liquidity of the RMB Notes. To the extent that the Bank is required to source Renminbi in the offshore market to service its RMB Notes, there is no assurance that the Bank will be able to source such Renminbi on satisfactory terms, if at all.

Investment in RMB Notes is subject to exchange rate risks

The value of Renminbi against other foreign currencies fluctuates from time to time and is affected by changes in the PRC and international political and economic conditions as well as many other factors. The PBoC has in recent years implemented changes to the way it calculates the Renminbi's daily mid-point against the U.S. Dollar to take into account market-maker quotes before announcing such daily mid-point. This change, and others that may be implemented, may increase the volatility in the value of the Renminbi against foreign currencies. All payments of interest and principal will be made in Renminbi with respect to the RMB Notes unless otherwise specified. As a result, the value of these Renminbi payments may vary with the changes in the prevailing exchange rates in the marketplace. If the value of Renminbi depreciates against another foreign currency, the value of the investment made by a holder of the RMB Notes in that foreign currency will decline.

Investment in the RMB Notes is subject to currency risk

If the Bank is unable to or it is impracticable for it to satisfy its obligation to pay interest and principal on the RMB Notes as a result of an RMB Currency Event (as defined in the Conditions), the Bank shall be entitled, on giving notice as soon as practicable to the investors in accordance with the Conditions stating the occurrence of the RMB Currency Event, giving details thereof and the action proposed in relation thereto, to settle any such payment in the Relevant Currency (as specified in the relevant Final Terms) converted using the Spot Rate for the relevant Rate Calculation Date (as defined in the Conditions) of any such interest or principal, as the case may be.

Payments with respect to the RMB Notes may be made only in the manner designated in the RMB Notes

All payments to investors in respect of the RMB Notes will be made solely (i) for so long as the RMB Notes are represented by global certificates held with the common depositary, for Clearstream Banking S.A. and Euroclear Bank SA/NV or any alternative clearing system, by transfer to a Renminbi bank account maintained in Hong Kong or in the RMB Settlement Centre(s), if so specified in the relevant Final Terms, (ii) for so long as the RMB Notes are represented by global certificates, by transfer to a Renminbi bank account maintained in Hong Kong in accordance with prevailing rules and procedures or (iii) for so long as the RMB Notes are in definitive form, by transfer to a Renminbi bank account maintained in Hong Kong or in the RMB Settlement Centre(s), if so specified in the relevant Final Terms, in accordance with prevailing rules and regulations. The Bank cannot be required to make payment by any other means (including in any other currency or by transfer to a bank account in the PRC).

Gains on the transfer of the Renminbi Notes may become subject to income taxes under PRC tax laws

Under the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules, as amended from time to time, any gain realised on the transfer of Renminbi Notes by non-PRC resident enterprise or individual Holders may be subject to PRC enterprise income tax ("**EIT**") or PRC individual income tax ("**IIT**") if such gain is regarded as income derived from sources within the PRC. The PRC Enterprise Income Tax Law levies EIT at the rate of 20 per cent. of the PRC sourced gains derived by such non-PRC resident enterprise from the transfer of Renminbi Notes but its implementation rules have reduced the EIT rate to 10 per cent. The PRC Individual Income Tax Law levies IIT at a rate of

20 per cent. of the PRC-sourced gains derived by such non-PRC resident individual Holder from the transfer of Renminbi Notes.

However, uncertainty remains as to whether the gain realised from the transfer of Renminbi Notes by non-PRC resident enterprise or individual Holders would be treated as income derived from sources within the PRC and thus become subject to EIT or IIT. This will depend on how the PRC tax authorities interpret, apply or enforce the PRC Enterprise Income Tax Law, the PRC Individual Income Tax Law and the relevant implementing rules. According to the arrangement between the PRC and Hong Kong, for avoidance of double taxation, Holders who are residents of Hong Kong, including enterprise Holders and individual Holders, will not be subject to EIT or IIT on capital gains derived from a sale or exchange of the Notes.

Therefore, if enterprise or individual resident Holders which are non-PRC residents are required to pay PRC income tax on gains derived from the transfer of Renminbi Notes, unless there is an applicable tax treaty between PRC and the jurisdiction in which such non-PRC enterprise or individual Holders of Renminbi Notes reside that reduces or exempts the relevant EIT or IIT, the value of their investment in Renminbi Notes may be materially and adversely affected.

Risk Factors relating to the United Arab Emirates

General Risk; Emerging Market Risk

The Bank has a majority of its operations and assets in the UAE. Accordingly, its business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and/or the Middle East generally. Moreover, investors should note that the Bank's business and financial performance could be adversely affected by political, economic and related developments both within and outside countries in which the Bank operates because of the interrelationship with global financial markets.

Investors should also be aware that investments in developing markets, such as the UAE, are subject to greater risks than investments in more developed markets, including in some cases significant legal, economic and political risks. Moreover, although economic conditions are different in each country, investors' reactions to developments in one country may affect securities of issuers in other countries, including the UAE. Accordingly, the market prices of Notes may be subject to significant fluctuations, which may not necessarily be related to the financial performance of the Bank. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, their investment is appropriate. Generally, an investment in Notes is only suitable for sophisticated investors who fully appreciate the significance of the risks involved.

The UAE's economy is highly dependent upon its oil revenue

Although the UAE has a more diversified economy than most other countries in the GCC, the UAE's economy, directly and indirectly remains, highly dependent upon its oil revenues.

According to data produced by OPEC, as at 31 December 2020, the UAE had approximately 6.9 per cent. of the world's proven crude oil reserves (giving it the fifth largest oil reserves in the world) (*source:* OPEC Annual Statistical Bulletin 2021) while, according to preliminary data produced by the UAE Federal Competitiveness and Statistics Authority ("**FCSA**"), the hydrocarbon sector (mining and quarrying (including crude oil and natural gas)) accounted for 17.2 per cent. of the UAE's nominal GDP in 2020 and crude oil revenues accounted for 41.4 per cent. of total public revenues in 2020. According to the OPEC website, the price of the OPEC Reference Basket has fluctuated significantly in recent years. Since July 2014, when the monthly average OPEC Reference Basket price per barrel was U.S.$107.89, crude oil prices fell sharply by approximately 75 per cent. to a monthly average price of U.S.$26.50 in January 2016. Although crude oil prices have recovered in recent years, with the monthly average price being U.S.$56.94 per barrel in December 2018 and U.S.$66.48 per barrel in December 2019, 2020 saw significant volatility, with the average price of the OPEC Reference Basket falling from U.S.$65.11 per barrel in January 2020 to U.S.$16.52 per barrel as at 1 May 2020, before recovering to an average price of U.S.$41.47 per barrel for the year ended 31 December 2020. Oil prices rose over the course of 2021 and as at 31 December 2021, the average price of the OPEC Reference Basket was U.S.$ 77.97. The Russian invasion of Ukraine in February 2022 then led to sharp rises in oil prices. The average price of the OPEC Reference Basket for the week ending on 25 February 2022 was U.S.$97.39.

In addition to a fall in the demand for oil as a result of the spread of COVID-19 (see "*Risks related to the Bank's business activities and industry – Impact of recent macroeconomic and financial market conditions – COVID-19*"), factors such as the inability of OPEC and its allies to efficiently reach an agreement on oil production levels have had a significant impact on the price of oil. In early March 2020, OPEC officials proposed a plan to OPEC plus, to reduce global oil production by 1.5 per cent. However, the parties were unable to reach agreement and the three-year partnership between OPEC and major non-OPEC providers was terminated as a result. This also resulted in OPEC plus failing to extend the agreement of cutting 2.1 million barrels per day that was set to expire at the end of March 2020. On 7 March 2020, Saudi Arabia announced that it would raise oil output and discount its oil price in April 2020. However, in early April 2020, OPEC plus announced that it had reached an agreement to cut production by 9.7 million barrels a day. Nevertheless, this action failed to sufficiently support the oil market with prices falling in the days following that announcement. This agreement was extended until July 2020, beyond which a gradual easing of the cuts was scheduled. In January 2021, OPEC and Russia agreed to a slight easing of the oil production cuts by 500,000 barrels per day and in September 2021 the OPEC Reference Basket reached a monthly average of U.S.$73.88. However, there can be no assurance that the agreement will be maintained by all relevant parties or achieve its stated goals or what effect the agreement will have on oil prices in the short to medium term.

With this backdrop, oil prices are expected to continue to fluctuate in the future in response to changes in many factors over which the Bank has no control. Factors that may affect the price of oil include, but are not limited to:

- (in the near to medium term) the effect of COVID-19 and the efficacy and availability of COVID-19 vaccines on global economic activity and the demand for oil and gas. See further "*Risks related to the Bank's business activities and industry – Impact of recent macroeconomic and financial market conditions*";
- economic and political developments in oil-producing regions, particularly in the Middle East and in Eastern Europe;
- global and regional supply and demand, and expectations regarding future supply and demand, for oil products;
- the ability of members of OPEC and other crude oil-producing nations to agree upon and maintain specified global production levels and prices;
- the impact of international environmental regulations designed to reduce carbon emissions;
- other actions taken by major crude oil-producing or consuming countries;
- prices and availability of alternative fuels, global economic and political conditions, prices and availability of new technologies using alternative fuels; and
- global weather and environmental conditions.

The spread of COVID-19 is expected to continue to disrupt trade and supply chain movements, which, together with COVID-19-related travel restrictions, creates conditions for high volatility in capital markets and commodity prices. Overall, the outbreak is expected to add uncertainty to global and domestic economies over the medium term.

If international prices for hydrocarbon products were to materially fall from their current levels and remain there for a significant period of time into the future, this could have a material adverse effect on the UAE's economy which, in turn, could have an adverse effect on the Bank's business, financial condition and results of operations.

Tax changes in the UAE may have an adverse effect on the Bank

As at the date of this Base Prospectus, the Bank is not currently subject to corporation tax (or any other analogous tax) on its earnings within the UAE. However, on 31 January 2022, the UAE Ministry of Finance announced the introduction of a corporate income tax (the "**CIT**") on business profits, which will come into effect on 1 June 2023 and which will apply to the Bank from such date. The CIT will apply on the adjusted accounting net profits of a business. It will not apply to taxable profits up to AED 375,000 and will apply at a standard statutory tax rate of 9 per cent. to taxable profits in excess thereof. Further details regarding the CIT are expected to be published by the UAE Ministry of Finance in due course.

Investors should also be aware that with effect from 1 January 2018, certain of the GCC states (including the UAE) have implemented a VAT regime at a rate of 5 per cent., with the remaining GCC states expected to implement VAT in the near future. See further "*Risks related to the Bank's business activities and industry – Impact of recent macroeconomic and financial market conditions*".

On 11 May 2020, the government of the Kingdom of Saudi Arabia announced that the VAT rate in the Kingdom of Saudi Arabia would increase from 5 per cent. to 15 per cent. as of 1 July 2020. Also on 11 May 2020, the UAE Ministry of Finance stated that there were no immediate plans to increase the rate of VAT in the UAE.

The UAE national legislation implementing this framework agreement was published on 23 August 2017 (UAE Federal Decree Law No. 8 of 2017) and, on 28 November 2017, the UAE Ministry of Finance published accompanying VAT implementing regulations.

The implementation of changes to corporation tax (or any other analogous tax regime) may have a material adverse effect on the Bank's business, financial condition, results of operations and prospects, which in turn could affect the Bank's ability to perform its obligations in respect of any Notes issued under the Programme. With respect to the introduction of VAT in the UAE, the Bank's costs have increased and its future profitability could be negatively affected, in comparison to the previous tax-free environment.

Political, Economic and Related Considerations

While, historically, the UAE has enjoyed significant economic growth and relative political stability, there can be no assurance that such growth or stability will continue, particularly in the light of significant adverse financial and economic conditions experienced worldwide since early 2008 and, in particular, in light of the COVID-19 pandemic. Since that time, there has been a slowdown or reversal of the high rates of growth that had been experienced by many countries within the GCC and the UAE, especially in Dubai. Consequently, certain sectors of the GCC economy such as financial institutions that had benefited from such high growth rates, have been adversely affected by the global slowdown.

More recently, economic fallout from the global COVID-19 pandemic may have further severe negative impacts on the global economy and, in turn, the UAE economy. While the UAE Central Bank has taken steps to manage the adverse impact, the UAE's economic trajectory over the medium term may be adversely impacted by regional and global economic impacts of COVID-19.

Finally, although the UAE government's policies have generally resulted in improved economic performance, no assurance can be given that such level of performance will be sustained. Similarly, since 2008, global credit markets, particularly in the United States and Europe, have experienced difficult conditions. These challenging market conditions have resulted in reduced liquidity, greater volatility, widening of credit spreads and lack of price transparency in credit markets. The adverse market conditions have impacted investment markets both globally and in the UAE, including adverse changes and increased volatility in interest rates and exchange rates and decreased returns from equity, property and other investments. Such conditions, particularly if they persist for prolonged periods will likely exacerbate the adverse effects that have already been manifested in the UAE property sector.

No assurance can be given that the UAE government will not implement regulations or fiscal or monetary policies, including policies or regulations, or new legal interpretations of existing policies or regulations, relating to or affecting taxation, interest rates or exchange controls, or otherwise take actions which could have a material adverse effect on such performance and, in turn, on the Bank's business, financial condition, results of operations or prospects which could adversely affect the market price and liquidity of the Notes.

In addition, much of the revenue to the UAE is generated by the delivery of oil and gas services. The flow of revenue could be disrupted or affected by the occurrence of events or circumstances such as war, terrorist activity, attacks on oil installations and other similar events or a general decline in global oil prices. See further "*Risk Factors – Risk Factors relating to the United Arab Emirates – The UAE's economy is highly dependent upon its oil revenue*".

While the UAE is seen as a relatively stable political environment, certain other jurisdictions in the Middle East are not and there is a risk that regional geopolitical instability could impact the UAE. Instability in the Middle East may result from a number of factors, including government or military regime change, civil unrest or terrorism. In particular, since early 2011 there has been political unrest (leading in certain circumstances to a change in political regime) in a range of countries in the Middle East and North Africa ("**MENA**") region, including Libya, Lebanon, Syria, the Republic of Iraq (Kurdistan) and the Republic of Yemen.

This unrest has ranged from public demonstrations to, in extreme cases, armed conflict (including the multinational conflict with Islamic State (also known as Daesh, ISIS or ISIL)) and the overthrow of existing leadership and has given rise to increased political uncertainty across the region. Further, the UAE, along with other Arab states, is currently participating in the Saudi Arabian-led intervention in Yemen which began in 2015 in response to requests for assistance from the Yemeni government against the Al Houthi militia. The UAE is also a member of another Saudi Arabian-led coalition formed in December 2015 to combat Islamic extremism and, in particular, Islamic State. Additionally, in June 2017, a number of MENA countries including the UAE, the Kingdom of Saudi Arabia, the Kingdom of Bahrain and the Arab Republic of Egypt severed diplomatic relations with the State of Qatar, citing Qatar's alleged support for terrorism and accusing Qatar of creating instability in the region. The termination of diplomatic relations included the withdrawal of ambassadors and imposing trade and travel bans. However, in January 2021, the Kingdom of Saudi Arabia, the Kingdom of Bahrain, Egypt and the UAE announced the ending of the blockade of Qatar including the restoration of diplomatic relations and the reopening of land and sea borders.

Furthermore, in September 2019, an attack on two Saudi Aramco oil facilities forced the Saudi government to shut down a significant amount of oil production temporarily and led to a temporary increase in oil prices.

There has also been an escalation of tension between Iran and a number of western governments in 2019 following the United States' withdrawal from the Joint Comprehensive Plan of Action, including the attack on a number of oil tankers in the Strait of Hormuz, the seizure of foreign-flagged oil tankers, missile strikes by Iran on United States military bases in Iraq and the decision of Iran to resume uranium enrichment activities. In addition, in January 2020, the United States carried out a military strike which killed Qassem Soleimani, a senior Iranian military commander. As a result of this military strike, Iran launched missiles at U.S. bases in Iraq. More recently, in August 2020, the UAE and the Kingdom of Bahrain announced the normalisation of relations with Israel.

On 17 January 2022, the Houthis, a militant Yemeni movement, claimed responsibility for what the UAE described as a drone and missile attack on Abu Dhabi at the facilities of Abu Dhabi National Oil Corporation, a state-owned oil company. In the following weeks, UAE forces intercepted three more hostile drones that entered UAE airspace, one of which was claimed by an Iraqi militia group.

The Bank's business may be affected by the financial, political and general economic conditions prevailing from time to time in the UAE and the MENA region. It is not possible to predict the occurrence of events or circumstances such as war, terrorism, civil unrest or hostilities, or the impact of such occurrences, and no assurance can be given that the Bank would be able to sustain its business and/or the development of all of its projects if further adverse political events or circumstances were to occur. Any such occurrences could have a material adverse effect on the Bank's business, financial condition and results of operations and this could therefore affect the ability of the Bank to perform its obligations in respect of any Notes.

As at 31 December 2021, 50 per cent. of the Bank's gross loans and advances, including Islamic financing, are to corporate and commercial borrowers in the UAE and accordingly, a downturn or instability in certain sectors of the UAE or regional economy could have an adverse effect on the Bank's business, financial condition, results of operations or prospects.

Foreign exchange movements or any alteration to, or abolition of, the foreign exchange "peg" of the UAE dirham to the U.S. dollar may adversely affect the Bank's profitability

The Bank maintains its accounts, and reports its results, in the UAE dirham, while the Notes are likely to be denominated and payable in U.S. dollars or other foreign currencies. Although the AED has been 'pegged' at a fixed exchange rate to the U.S. dollar since 22 November 1980, the Bank is exposed to the potential impact of any alternation to, or abolition of, this foreign exchange 'peg'.

In response to the volatility of oil prices internationally through 2015, oil producing countries with currencies that had been traditionally pegged to the U.S. dollar, faced pressure to de-peg and, in certain cases, did de-peg their currencies. For example, Kazakhstan de-pegged the Kazakhstani tenge from the U.S. dollar on 20 August 2015, which was followed on 21 December 2015 by the removal of the U.S. dollar peg against the Azerbaijani manat.

There is a risk that additional countries may choose to unwind their existing currency peg to the U.S. dollar, both in the GCC and the wider region. While the long-term impacts of such actions are uncertain, it is likely that any such de-pegged currency would face a de-valuation against the U.S. dollar immediately post-removal of the peg. Given the levels of exposure amongst regional financial institutions to other pegged currencies, it is also likely that such currency de-valuation(s) would pose a systemic risk to the regional banking systems in the UAE and across the wider GCC, thereby impacting the open cross-currency positions held by regional banks, including the Bank.

While the UAE Central Bank has re-iterated its intention to retain the UAE dirham peg against the U.S. dollar, there can be no assurance that the UAE dirham will not be de-pegged in the future or that the existing peg will not be adjusted in a manner that adversely affects the Bank's result of operations and financial condition. Additionally, any such de-pegging either in the UAE or across the wider region, particularly if such de-pegging is accompanied by the anticipated currency de-valuations against the U.S. dollar (as described above), could have an adverse effect on the Bank's business, results of operations, financial condition and prospects, and thereby affect the Bank's ability to perform its obligations under the Notes.

Risk Factors relating to the legal and regulatory environment

Regulation of the Banking Industry

The Bank conducts activities in a highly regulated market which exposes it to risks arising from laws and regulations that apply to the businesses it operates. These laws and regulations are highly dynamic, may vary between jurisdictions, and can be unclear in their application to particular circumstances, especially in new and emerging areas. This exposes the Bank to the risk of loss or the imposition of penalties, damages or fines from the failure of the Bank to meet its legal obligations.

A breach of applicable legislation and/or regulations by the Bank or its employees could result in criminal prosecution, regulatory censure, significant fines and other sanctions in the jurisdictions in which the Bank operates. The Bank may be subject to requests for information, investigations and other reviews by regulators, governmental and other public bodies in connection with business activities in which the Bank is, or has been, engaged.

The outcome of legal or regulatory matters, both those to which the Bank is currently exposed and any others which may arise in the future, is difficult to predict. In connection with such matters, the Bank may incur significant expense, regardless of the ultimate outcome, and any such matters could expose the Bank to any of the following outcomes: substantial monetary damages, settlements and/or fines; remediation of affected customers and clients; other penalties and injunctive relief; additional litigation; criminal prosecution; the loss of any existing agreed protection from prosecution; regulatory restrictions on the Bank's business operations including the withdrawal of authorisations; increased regulatory compliance requirements or changes to laws or regulations; suspension of operations; public reprimands; loss of significant assets or business; a negative effect on the Bank's reputation; loss of confidence by investors, counterparties, clients and/or customers; risk of credit rating agency downgrades; potential negative impact on the availability and/or cost of funding and liquidity; and/or dismissal or resignation of key individuals. Any of these outcomes could have a material adverse effect on the Bank's business, results of operations, financial condition or prospects, and further on the market price and liquidity of the Notes.

The Bank is subject to a number of prudential controls designed to maintain the safety and soundness of banks, ensure their compliance with economic, social and other objectives and limit their exposure to risk. These include UAE federal laws and regulations (particularly those of the UAE federal government and the UAE Central Bank). In particular (but without limitation), the Bank is subject to restrictions on credit limits in respect of real estate and construction financing, major shareholders or to a single customer (based on the Bank's customer deposits and/or capital and reserves as prescribed by the UAE Central Bank). Such regulations may limit the Bank's ability to increase its loan portfolio or raise capital or may increase the Bank's cost of doing business.

Regulatory standards applicable to banks in the UAE and the oversight and enforcement thereof by the regulators may differ from those applicable to banking operations in more highly developed regulatory regimes. There can be no assurance that the UAE Government will not implement regulations or policies, including policies or regulations or legal interpretations of existing banking or other regulations, relating to or affecting taxation, interest rates, commissions, fees, inflation or exchange controls, or otherwise take action that could have a material adverse effect on the Bank's business, results of operations, financial condition or prospects, and further on the market price and liquidity of the Notes.

Although the Bank works closely with its regulators and continually monitors the situation, future changes in regulation, fiscal or other policies which may have a material adverse effect upon the Bank's business, the value of its assets and its financial condition cannot be predicted and are beyond the control of the Bank.

A description of the legal and regulatory environment applicable to banks generally in the UAE is set out below under "*The United Arab Emirates Banking System and Prudential Regulation*".

Changes to the Basel regulatory framework as implemented in the UAE may have an effect on Subordinated Notes

The Basel Committee has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued the Basel III Reforms, constituting guidance on the eligibility criteria for Tier 1 and Tier 2 Capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. The implementation of the Basel III Reforms began on 1 January 2013; however, the requirements are subject to a series of transitional arrangements that will be phased in over a period of time. The Basel Committee's press release dated 13 January 2011 entitled "*Minimum requirements to ensure loss absorbency at the point of non-viability*" (the "**January 2011 Press Release**") included an additional qualification requirement for Tier 1 and Tier 2 Capital instruments under Basel III.

This requirement (the "**Non-Viability Requirement**") requires contractual or legislative terms providing for, at the option of the relevant authority, the writing-off of the principal amount of Tier 2 capital instruments or the conversion of such Tier 2 capital instruments into ordinary shares upon the occurrence of the earlier of: (a) a decision that a write-off, without which the relevant bank would become non-viable, is necessary; and (b) the decision to make a public sector injection of capital, without which the relevant bank would become non-viable, in each case as determined by the relevant authority (a "**Non-Viability Event**"). This definition is for illustrative purposes only and may not necessarily reflect the meaning ascribed to the term "**Non-Viability Event**" (or any term equivalent thereto) pursuant to any law or regulation implementing Basel III in the UAE.

On 23 February 2017, the UAE Central Bank published the "*Regulations re Capital Adequacy*" (the "**February 2017 Regulations**") in the Official Gazette issue 612, which were effective from 1 February 2017. The February 2017 Regulations are intended to ensure that the capital adequacy of all banks operating in the UAE is in line with the Basel III Reforms, whilst implementing the measures contained in the May 2016 consultation document published by the UAE Central Bank, entitled "*Capital Adequacy Regulation*" (the "**Consultation Document**").

The February 2017 Regulations are supported by accompanying standards (the "**Accompanying Standards**") which were published by the Central Bank on 17 January 2018 in its Circular No. 28/2018 entitled "*Standard re Capital Supply*" and are expressed to be effective from 31 December 2017. In addition, in March 2018 the UAE Central Bank published its "*Standard re Tier Capital Instruments*" (the "**Standard re Tier Capital Instruments**" and together with the Accompanying Standards, the "**Capital Standards**") (and accompanying guidance), expressed to be effective from 31 March 2018. The Capital Standards elaborate on the supervisory expectations of the UAE Central Bank, as set out in the February 2017 Regulations, with respect to the relevant Basel III capital adequacy requirements and how they will be applied by the UAE Central Bank to banks in the UAE. For example, banks which are classified as "domestic systemically important banks" (D-SIBs) by the UAE Central Bank will be required to hold additional capital buffers as notified to them by the UAE Central Bank. In addition, a bank may also be subject to additional capital add-on requirements following a Supervisory Review and Evaluation process of the UAE Central Bank.

Moreover, the Central Bank's Standard Re Tier Capital Instruments requires that a periodic distribution on any additional tier 1 instrument should be cancelled if the relevant UAE bank does not have sufficient "Distributable Items" on the relevant date for payment of (i) such periodic distribution and (ii) certain other payment obligations. However, if the Central Bank's ultimate implementation of any additional counter-cyclical or systemically important buffers is not in accordance with the provisions set out in the February 2017 Regulations and the Capital Standards, the regulatory burden on UAE financial institutions such as the Bank may further increase which could adversely impact the Bank's business. In addition, if further counter-cyclical or systemically important buffers are implemented by the UAE Central Bank, it is possible that UAE financial institutions, including the Bank, will be required to increase the levels of Common Equity Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital (together, "**Regulatory Capital**") that they hold on their balance sheets.

Such regulations may limit the Bank's ability to increase its loan portfolio or raise capital or may increase the Bank's cost of doing business. Any further changes in laws or in UAE Central Bank regulations or policy and/or the manner in which they are interpreted or enforced may affect the Bank's reserves, revenues and performance and may have a material adverse effect on the Bank's business, results of operations, financial condition and prospects. Furthermore, non-compliance with regulatory guidelines could expose the Bank to potential liabilities and fines. Although the Bank works closely with its regulators and continually monitors compliance with UAE Central Bank regulations and policy, future changes in regulation, fiscal or other policies cannot be predicted and are beyond its control. See further "*The United Arab Emirates Banking System and Prudential Regulation – Recent Trends in Banking – Capital adequacy*".

UAE law and courts and the enforcement of foreign judgments in the Emirate of Dubai

The payments under the Notes are dependent on the Bank making payments in the manner contemplated under the Notes. If the Bank fails to do so, it may be necessary to bring an action against the Bank to enforce its obligations and/or to claim damages as appropriate, which may be costly and time-consuming.

Furthermore, to the extent that enforcement of remedies must be pursued in the UAE, it should be borne in mind that there is limited scope for self-help remedies under UAE law and that generally enforcement of remedies in the UAE must be pursued through the courts.

Under the Conditions, the Bank has irrevocably agreed for the exclusive benefit of the Noteholders and the Couponholders that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings and to settle any disputes which may arise out of or in connection with the Notes, the Coupons and English law-governed documents and for such purposes, irrevocably submits to the jurisdiction of such courts. Any dispute arising from or connected with the Notes may alternatively be referred to arbitration in London in accordance with the rules of the London Court of International Arbitration. Notwithstanding that an arbitral award may be obtained from an arbitral tribunal in London or that a judgment may be obtained in an English court, there is no assurance that the Bank has, or would at the relevant time have, assets in the UK against which such arbitral award or judgment could be enforced.

However, under current UAE federal law, the courts in the UAE are unlikely to enforce an English court judgment without re-examining the merits of the claim and may not observe the parties' choice of English law as the governing law of the transaction. In the UAE, foreign law is required to be established as a question of fact and the interpretation of English law by a court in the UAE may not accord with that of an English court. In principle, courts in the UAE recognise the choice of foreign law if they are satisfied that an appropriate connection exists between the relevant transaction agreement and the foreign law which has been chosen. They will not, however, honour any provision of foreign law which is contrary to public policy, order or morals in the UAE, or to any mandatory law of, or applicable in, the UAE. This may mean that the UAE courts may seek to interpret English law governed documents as if they were governed by UAE law and there can therefore be no certainty that in those circumstances the UAE courts would give effect to such documents in the same manner as the parties may intend.

As the UAE is a civil law jurisdiction, judicial precedents in the UAE have no binding effect on subsequent decisions. In addition, court decisions in Dubai are generally not recorded and there is no formal system of reporting court decisions in the UAE. These factors create greater judicial uncertainty than would be expected in other jurisdictions. The enforcement of a foreign judgment or arbitral award may be a lengthy process in the UAE.

The New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards 1958 (the "**New York Convention**") entered into force in the UAE on 19 November 2006. In the absence of any other multilateral or bilateral enforcement convention, an arbitration award rendered in London should be enforceable in the UAE in accordance with the terms of the New York Convention. Under the New York Convention, the UAE has an obligation to recognise and enforce foreign arbitration awards, unless the party opposing enforcement can prove one of the grounds under Article V(1) of the New York Convention to refuse enforcement, or the UAE courts find pursuant to Article V(2) of the New York Convention that the subject matter of the dispute is not capable of settlement by arbitration or enforcement would be contrary to the public policy of the UAE.

In practice, however, there is no established track record as to how the New York Convention provisions would be interpreted and applied by the UAE courts in practice and whether the UAE courts will enforce a foreign arbitration award in accordance with the New York Convention (or any other multilateral or bilateral enforcement convention). This is reinforced by the lack of a system of binding judicial precedent in the UAE and the independent existence of different Emirates within the UAE, some with their own court systems, whose rulings may have no more than persuasive force cross border. Although there are examples of foreign arbitral awards being enforced in the UAE under the New York Convention, there are other cases where the enforcement of foreign arbitral awards has been refused, with, for example, the relevant judge confusing the requirements for the enforcement of domestic awards with the requirements for the enforcement of foreign court judgments under the UAE. Federal Law No. 1 of 1992 as amended, or ignoring the provisions of Article 238 of Federal Law No. 11 of 1992 (as amended by Federal Law No. 30 of 2005) (the Law of Civil Procedure). Federal Cabinet Resolution No. 57 of 2018 (the "**Resolution**") governs the enforcement of foreign arbitral awards. The Resolution confirms that arbitral awards issued in a foreign state may be enforced in the UAE and that the conditions for enforcement of foreign arbitral awards set out in the New York Convention take precedence over the Resolution. However, there is no established track record as to how the overlapping provisions of the New York Convention and the Resolution will be interpreted and applied by the UAE courts in practice. There is also a risk that, notwithstanding the Resolution or the terms of an applicable multilateral or bilateral enforcement convention, the UAE courts may in practice still consider and apply the grounds set out in Federal Law No. 6 of 2018 (the "**UAE Arbitration Law**") related to the enforcement of non-UAE seated arbitral awards (as provided in Articles 52 to 57 of the UAE Arbitration Law) to the enforcement of any non-UAE arbitral award. The UAE Arbitration Law and the Resolution are both new and it is unclear how they will be applied by the UAE courts in practice. Accordingly, there is a risk that a non-UAE arbitral award will be refused enforcement by the UAE courts.

UAE bankruptcy law may adversely affect the holders of Notes

In the event of the Bank's insolvency, UAE bankruptcy law may adversely affect the Bank's ability to perform its obligations under the Programme and, in turn, may adversely affect the Bank's ability to make payments to Noteholders. There is little precedent to predict how claims by or on behalf of the Noteholders against the Bank upon its insolvency would be resolved, and therefore there can be no assurance that Noteholders will receive payment of their claims in full or at all in these circumstances.

Risk Factors relating to the nature of the Notes

Notes subject to Optional Redemption by the Bank

The Bank may issue Notes which entitle the Bank to redeem such Notes prior to their maturity date at its option and at a price which may be less than the prevailing market price of those Notes. An optional redemption feature of Notes is likely to limit their market value. During any period when the Bank may elect to redeem the Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. However, this may also be true prior to any redemption period.

The Bank may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider the reinvestment risk in light of other investments available at that time.

Certain benchmark rates, including EURIBOR, may be discontinued or reformed in the future.

Certain benchmark rates, including the Euro Interbank Offered Rate ("**EURIBOR**"), may be discontinued or reformed in the future. The EURIBOR and other interest rates or other types of rates and indices which are deemed to be benchmarks are the subject of ongoing national and international regulatory discussions and proposals for reform. Some of these reforms are already effective whilst others are still to be implemented.

The EU Benchmarks Regulation applies, subject to certain transitional provisions, to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the EU. Regulation (EU) No. 2016/1011 as it forms part of domestic law of the UK by virtue of the EUWA (the "**UK Benchmarks Regulation**") applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark, within the UK. The EU Benchmarks Regulation or the UK Benchmarks Regulation, as applicable, could have a material impact on any Notes linked to EURIBOR or another benchmark rate or index, in particular, if the methodology or other terms of the benchmark are changed in order to comply with the terms of the EU Benchmarks Regulation or the UK Benchmarks Regulation, and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of the published rate or level, of the benchmark. More broadly, any of the international, national or other proposals for reform, or the general increased regulatory scrutiny of benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks," trigger changes in the rules or methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes of certain "benchmarks".

As an example of such benchmark reforms, on 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate ("**€STR**") as the new risk-free rate for the euro area. The €STR was published for the first time on 2 October 2019. Although EURIBOR has subsequently been reformed in order to comply with the terms of the Benchmarks Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

The elimination of EURIBOR or any other benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest calculation provisions of the Conditions (as further described in Condition 7(i) (*Benchmark Replacement – Independent Advisor*) and Condition 7(j) (*Benchmark Replacement – SOFR*)), or result in adverse consequences to holders of any Notes linked to such benchmark (including Floating Rate Notes whose interest rates are linked to EURIBOR or any other such benchmark that is subject to reform). Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the term of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

The Conditions of the Notes provide for certain fallback arrangements in the event that a published benchmark (including any page on which such benchmark may be published (or any other successor service)) becomes unavailable or a Benchmark Event or a Benchmark Transition Event (each as defined in the Conditions), as applicable, otherwise occurs. Such an event may be deemed to have occurred prior to the issue date for a Series of Notes. Such fallback arrangements include the possibility that the rate of interest could be set by reference to a successor rate or an alternative rate and that such successor rate or alternative reference rate may be adjusted (if required) in order to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as applicable) to investors arising out of the replacement of the relevant benchmark, although the application of such adjustments to the Notes may not achieve this objective. Any such changes may result in the Notes performing differently (which may include payment of a lower interest rate) than if the original benchmark continued to apply. In certain circumstances the ultimate fallback of interest for a particular Interest Period may result in the rate of interest for the immediately preceding Interest Period being used.

This may result in the effective application of a fixed rate for Floating Rate Notes based on the rate which was last observed on the Relevant Screen Page. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser (as defined in the Conditions) in certain circumstances, the relevant fallback provisions may not operate as intended at the relevant time.

Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Investors should consult their own independent advisers and make their own assessment about the potential risks arising from the possible cessation or reform of certain reference rates, in making any investment decision with respect to any Notes linked to or referencing a benchmark.

The market continues to develop in relation to risk-free rates (including overnight rates such as SOFR, SONIA and €STR (each as defined below)) as reference rates for Floating Rate Notes

The use of risk-free rates - including those such as the Sterling Overnight Index Average ("**SONIA**"), the Secured Overnight Financing Rate ("**SOFR**") and the euro short-term rate ("**€STR**"), as reference rates for Eurobonds continues to develop. This relates not only to the substance of the calculation and the development and adoption of market infrastructure for the issuance and trading of bonds referencing such rates, but also how widely such rates and methodologies might be adopted.

The market or a significant part thereof may adopt an application of risk-free rates that differs significantly from that set out in the Conditions and used in relation to Notes that reference risk-free rates issued under this Programme. The Bank may in the future also issue Notes referencing SONIA, SOFR or €STR that differ materially in terms of interest determination when compared with any previous Notes issued by it under this Programme. The development of risk-free rates for the Eurobond markets could result in reduced liquidity or increased volatility, or could otherwise affect the market price of any Notes that reference a risk-free rate issued under this Programme from time to time.

In addition, the manner of adoption or application of risk-free rates in the Eurobond markets may differ materially compared with the application and adoption of risk-free rates in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of such reference rates in the bond, loan and derivatives markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of Notes referencing such risk-free rates.

In particular, investors should be aware that several different methodologies have been used in risk-free rate notes issued to date. No assurance can be given that any particular methodology, including the compounding formula in the Conditions, will gain widespread market acceptance. In addition, market participants and relevant working groups are still exploring alternative reference rates based on risk-free rates, including various ways to produce term versions of certain risk-free rates (which seek to measure the market's forward expectation of an average of these reference rates over a designated term, as they are overnight rates) or different measures of such risk-free rates. If the relevant risk-free rates do not prove to be widely used in securities like the Notes, the trading price of such Notes linked to such risk-free rates may be lower than those of Notes referencing indices that are more widely used.

Investors should consider these matters when making their investment decision with respect to any Notes which reference SONIA, SOFR or €STR or any related indices.

Risk-free rates may differ from LIBOR and other inter-bank offered rates in a number of material respects and have a limited history

Risk-free rates may differ from The London Interbank Offered Rate ("**LIBOR**") and other inter-bank offered rates in a number of material respects. These include (without limitation) being backwards-looking, in most cases, calculated on a compounded or weighted average basis, risk-free, overnight rates and, in the case of SOFR, secured, whereas such interbank offered rates are generally expressed on the basis of a forward-looking term, are unsecured and include a risk-element based on interbank lending. As such, investors should be aware that risk-free rates may behave materially differently to interbank offered rates as interest reference rates for the Notes. Furthermore, SOFR is a secured rate that represents overnight secured funding transactions, and therefore will perform differently over time to an unsecured rate. For example, since publication of SOFR began on 3 April 2018, daily changes in SOFR have, on occasion, been more volatile than daily changes in comparable benchmarks or other market rates.

Risk-free rates offered as alternatives to interbank offered rates also have a limited history. For that reason, future performance of such rates may be difficult to predict based on their limited historical performance. The level of such rates during the term of the Notes may bear little or no relation to historical levels. Prior observed patterns, if any, in the behaviour of market variables and their relation to such rates such as correlations, may change in the future. Investors should not rely on historical performance data as an indicator of the future performance of such risk-free rates nor should they rely on any hypothetical data.

Furthermore, interest on Notes which reference a backwards-looking risk-free rate is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference such risk-free rates reliably to estimate the amount of interest which will be payable on such Notes, and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which could adversely impact the liquidity of such Notes. Further, in contrast to Notes linked to interbank offered rates, if Notes referencing backwards-looking rates become due and payable as a result of an Event of Default under Condition 12 (*Events of Default*), or are otherwise redeemed early on a date which is not an Interest Payment Date, the final Rate of Interest Rate payable in respect of such Notes shall be determined by reference to a shortened period ending immediately prior to the date on which the Notes become due and payable or are scheduled for redemption.

The administrator of SONIA, SOFR or €STR or any related indices may make changes that could change the value of SONIA, SOFR or €STR or any related indices, or discontinue SONIA, SOFR or €STR or any related indices

The Bank of England, the Federal Reserve Bank of New York or the European Central Bank (or their successors) as administrators of SONIA (and SONIA Compounded Index), SOFR (and SOFR Compounded Index) or €STR, respectively, may make methodological or other changes that could change the value of these risk-free rates, including changes related to the method by which such risk-free rate is calculated, eligibility criteria applicable to the transactions used to calculate SONIA, SOFR or €STR, or timing related to the publication of SONIA, SOFR or €STR or any related indices. In addition, the administrator may alter, discontinue or suspend calculation or dissemination of SONIA, SOFR or €STR or any related index (in which case a fallback method of determining the interest rate on the Notes will apply). The administrator has no obligation to consider the interests of Noteholders when calculating, adjusting, converting, revising or discontinuing any such risk-free rate.

Subordination

Purchasers of Subordinated Notes should be aware that the rights of holders of Subordinated Notes against the Bank are subordinated in right of payment to the claims of all Senior Creditors (creditors of the Bank (including depositors), other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims of the Bank's subordinated and unsecured creditors, save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application) of the Bank and, accordingly, payments by the Bank in respect of Subordinated Notes (whether on account of principal, interest or otherwise) are conditional upon the Bank being solvent at the time of such payment. No payment shall be payable by the Bank in respect of Subordinated Notes except to the extent that the Bank could make such payment, and any other payment required to be made to a creditor in respect of any indebtedness, which ranks or is expressed to rank *pari passu* with the relevant Subordinated Notes, and still be solvent immediately thereafter. For this purpose, the Bank shall be solvent if: (i) it is able to pay its debts as they fall due; and (ii) its assets exceed its liabilities.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that converts from a fixed rate to a floating rate, or from a floating rate to a fixed rate. Where the Bank has the right to effect such a conversion, this will affect the secondary market and the market value of the Notes since the Bank may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Bank converts from a fixed rate to a floating rate in such circumstances, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Bank converts from a floating rate to a fixed rate in such circumstances, the fixed rate may be lower than then prevailing rates on its Notes.

Notes may be subject to early redemption for tax reasons

Pursuant to Condition 9(b) (*Redemption for tax reasons*), the Bank may, at any time (if the Floating Rate Note provisions are specified in the relevant Final Terms as not being applicable) or on any Interest Payment Date (if the Floating Rate Note provisions are specified in the relevant Final Terms as being applicable) having given not less than 30 nor more than 60 days' prior notice to Noteholders in accordance with Condition 18 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Notes at their Early Redemption Amount.

Any such redemption of the Notes is subject to the requirements set out in Conditions 9(b) (*Redemption for tax reasons*).

There is no assurance that the holders of the Notes will be able to reinvest the amount received upon such redemption at a rate that will provide the same rate of return as their investment in the Notes. During any period when the Bank may redeem the Notes, the market value of the Notes generally will not rise substantially above the Early Redemption Amount (as defined in the Conditions) payable. Potential investors should consider the re-investment risk in light of other investments available at that time.

Subordinated Notes may be subject to early redemption for regulatory reasons

Pursuant to Condition 9(f) (*Regulatory Redemption Event*), on the occurrence of a Regulatory Redemption Event (as defined in the Conditions), the Bank shall, at any time on any Interest Payment Date having given not less than 15 nor more than 30 days' prior notice to Noteholders in accordance with Condition 18 (*Notices*) (which notice shall be irrevocable) redeem in accordance with the Conditions, all, but not some only, of the Subordinated Notes at their Make Whole Redemption Amount.

There is no assurance that the holders of the Subordinated Notes will be able to reinvest the amount received upon such redemption at a rate that will provide the same rate of return as their investment in the Subordinated Notes. During any period when the Bank redeems the Subordinated Notes, the market value of the Subordinated Notes generally will not rise substantially above the Regulatory Redemption Amount payable. Potential investors should consider the re-investment risk in light of other investments available at that time.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared with conventional interest-bearing securities with comparable maturities.

No Market; Illiquidity

The Notes are new securities which may not be widely distributed and for which there is currently no active trading market (unless in the case of any particular Tranche, such Tranche is to be consolidated with and form a single series with a Tranche of Notes which is already issued). Although applications have been made for the Notes to be admitted to the official list and trading on the Luxembourg Stock Exchange's regulated market there can be no assurance that such applications will be accepted, that any particular Tranche of Notes will be so admitted, or that an active trading market will develop or, if developed, that it will continue. In addition, the Bank may choose to issue unlisted Notes. Any one or more of the Dealers may make a market in the Notes, but are not obligated to do so and may discontinue any market making, if commenced, at any time without notice. There can be no assurance that a secondary market will develop for the Notes (including, in particular RMB Notes) or, if a secondary market therein does develop, that it will continue. In which case, investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a severely adverse effect on the market value of Notes. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Bank. Accordingly, the purchase of Notes is suitable only for investors who can bear the risks of no liquidity and the financial and other risks associated with an investment in Notes.

Exchange Trading

If a particular Tranche of Notes issued under the Programme is to be traded on the regulated market of the Luxembourg Stock Exchange or on or by any other relevant stock exchange, competent authority and/or quotation system within the European Union (the "**EU**"), which qualifies as a regulated market for the purposes of EU MiFID II (each, for the purposes of the following, an "**EU Exchange**"), the Bank expects, but is not obligated to investors, to maintain the eligibility of the Notes for trading on such EU Exchange(s). Changed circumstances, including changes in applicable regulatory requirements, could result in a suspension or removal of trading privileges, or cause the Bank to conclude that continued trading of the Notes on such EU Exchange(s) is unduly burdensome.

Noteholder Meetings; Modification

The Conditions contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority.

Subject to and in accordance with Condition 7(i)(v) (*Benchmark Replacement – Independent Advisor*) and Condition 7(j) (*Benchmark Replacement – SOFR*), as applicable, certain changes may be made to the interest calculation of Floating Rate Notes, without the consent of the Noteholders. The Conditions also provide that they may be amended, without the consent of Noteholders, to correct a manifest error, in the circumstances specified in Condition 16 (*Meetings of Noteholders; Modification and Waiver*).

Change of law

The structure of the issue of the Notes under the Programme is based on English law, UAE law and administrative practices in effect as at the date of this Base Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law, UAE law or administrative practices after the date of this Base Prospectus, nor can any assurance be given as to whether any such change could adversely affect the ability of the Bank to make payments under the Notes to be issued under the Programme or to comply with its obligations under the transaction documents to which it is a party.

Notes where denominations involve integral multiples; Definitive Notes

In relation to any issue of Notes which have denominations consisting of a minimum denomination plus one or more higher integral multiples of another smaller amount, it is possible that such Notes may be traded in amounts in excess of the relevant minimum denomination that are not integral multiples of such minimum denomination. Noteholders who, as a result of trading such amounts, hold a principal amount of Notes other than a multiple of the relevant minimum denomination will receive Definitive Notes in respect of their holding (provided that the aggregate amount of Notes they hold is in excess of the minimum denomination), however, any such Definitive Notes which are printed in denominations other than the relevant minimum denomination may be illiquid and difficult to trade. Furthermore, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the relevant minimum denomination may not receive a Definitive Note in respect of such holding (should Definitive Notes be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least the relevant minimum denomination.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, holders of the Notes will have to rely on their procedures for transfer, payment and communication with the Bank

Notes issued under the Programme may be represented by one or more Global Notes. Such Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in the circumstances described in the relevant Global Note, holders of the Notes will not be entitled to receive Definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the Notes are represented by one or more Global Notes, holders of the Notes will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg and their participants.

While the Notes are represented by one or more Global Notes, the Bank will discharge its payment obligations under the Notes by making payments to the common depositary, as the case may be, for

Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the relevant Notes. The Bank has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the relevant Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies. Similarly, holders of beneficial interests in the Global Notes will not have a direct right under the Global Notes to take enforcement action against the Bank in the event of a default under the relevant Notes but will have to rely upon their rights under the Deed of Covenant.

Exchange rate risks and exchange controls

The Bank will pay principal and interest on the Notes in the currency specified in the relevant Final Terms (the "**Specified Currency**"). This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than the Specified Currency.

These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Currency or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls.

An appreciation in the value of the Investor's Currency relative to the Specified Currency would decrease: (a) the Investor's Currency-equivalent yield on the Notes; (b) the Investor's Currency-equivalent value of the principal payable on the Notes; and (c) the Investor's Currency-equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Credit ratings may not reflect all risks

One or more independent credit rating agencies may assign credit ratings to the Bank or the Notes. The ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency at any time.

In general, European regulated investors are restricted from using a rating for regulatory purposes if such rating is not (1) issued by a credit rating agency established in the EEA and registered under the EU CRA Regulation or (2) provided by a credit rating agency not established in the EEA but is endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation or (3) provided by a credit rating agency not established in the EEA but which is certified under the EU CRA Regulation. Similarly, in general, UK regulated investors are restricted from using a rating for regulatory purposes if such rating is not (1) issued by a credit rating agency established in the UK and registered under the UK CRA Regulation or (2) provided by a credit rating agency not established in the UK but is endorsed by a credit rating agency established in the UK and registered under the UK CRA Regulation or (3) provided by a credit rating agency not established in the UK but which is certified under the UK CRA Regulation. Limited information with respect to the credit rating agencies and ratings is disclosed on the front cover of this Base Prospectus and, if a Tranche of Notes is rated, such rating will be disclosed in the relevant Final Terms.

A downgrade in the Bank's credit ratings could limit its ability to negotiate new loan facilities or access the debt capital markets and may increase its borrowing costs and/or adversely affect its relationship with creditors

The Bank's credit ratings, which are intended to measure its ability to meet its debt obligations as they fall due, are an important factor in determining the Bank's cost of borrowing funds. The interest rates of the Bank's borrowings are partly dependent on its credit ratings. As of the date of this Base Prospectus, the Bank has been rated by Fitch at A, Moody's at Baa1 and S&P at A-. A downgrade of the Bank's credit ratings may increase its cost of borrowing and materially adversely affect its results of operations.

A downgrade of the Bank's credit ratings may also limit its or its subsidiaries' ability to raise capital. Moreover, actual or anticipated changes in the Bank's credit ratings or the credit ratings of the Notes (if applicable) generally may affect the market value of the Notes. In addition, ratings assigned to the Notes (if applicable) may not reflect the potential impact of all risks related to the transaction, the market or any additional factors discussed in this Base Prospectus and other factors may affect the value of the Notes.

FORM OF THE NOTES

Each Tranche of Notes will be in bearer form and will initially be in the form of either a temporary global note (the "**Temporary Global Note**"), without interest coupons, or a permanent global note (the "**Permanent Global Note**"), without interest coupons, in each case as specified in the relevant Final Terms. Each Temporary Global Note or, as the case may be, Permanent Global Note (each a "**Global Note**") will be deposited on or around the issue date of the relevant Tranche of Notes with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system.

The relevant Final Terms for each Tranche of Notes that have a maturity of more than 365 days will also specify whether United States Treasury Regulation §1.163-5I(c)2)(i)(c) (or any successor United States Treasury Regulation section, including without limitation, regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (the "**TEFRA C Rules**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor United States Treasury Regulation section, including without limitation, regulations issued in accordance with Internal Revenue Service Notice 2012-20 or otherwise in connection with the United States Hiring Incentives to Restore Employment Act of 2010) (the "**TEFRA D Rules**") are applicable in relation to the Notes. For each Tranche of Notes that do not have a maturity of more than 365 days, regardless of when issued, the relevant Final Terms shall specify that the TEFRA C Rules and the TEFRA D Rules are not applicable.

All relevant information with respect to the Notes in a particular Tranche, including with respect to any reference or underlying securities relating to such Notes, will be set forth in the relevant Final Terms.

Temporary Global Note exchangeable for a Permanent Global Note

If the relevant Final Terms specify the form of Notes as being "Temporary Global Note exchangeable for a Permanent Global Note", then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for interests in a Permanent Global Note, without interest coupons, not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever any interest in the Temporary Global Note is to be exchanged for an interest in a Permanent Global Note, the Bank shall procure (in the case of first exchange) the prompt delivery (free of charge to the bearer) of such Permanent Global Note to the bearer of the Temporary Global Note or (in the case of any subsequent exchange) an increase in the principal amount of the Permanent Global Note in accordance with its terms against:

(i) presentation and (in the case of final exchange) surrender of the Temporary Global Note at the specified office of the Issuing and Principal Paying Agent; and

(ii) receipt by the Issuing and Principal Paying Agent of a certificate or certificates of non-U.S. beneficial ownership,

within seven days of the bearer requesting such exchange.

The principal amount of Notes represented by the Permanent Global Note shall be equal to the aggregate of the principal amounts specified in the certificates of non-U.S. beneficial ownership; **provided**, **however**, **that** in no circumstances shall the principal amount of Notes represented by the Permanent Global Note exceed the initial principal amount of Notes represented by the Temporary Global Note.

Exchange of Permanent Global Notes

The Permanent Global Note will be exchangeable, upon notice, in whole, but not in part, for Notes in definitive form ("**Definitive Notes**"):

(i) if the relevant Final Terms specify "in the limited circumstances described in the Permanent Global Note", then if: (a) Euroclear or Clearstream, Luxembourg or any other relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or in fact does so; or (b) any of the circumstances described in Condition 12 (*Events of Default*) occurs; or

(ii) if the Bank has or will become obliged to pay additional amounts as provided for or referred to in Condition 11 (*Taxation*), which would not be required were the Notes represented by the Permanent Global Note in definitive form.

Whenever the Permanent Global Note is to be exchanged for Definitive Notes, the Bank shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of Notes represented by the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note at the specified office of the Issuing and Principal Paying Agent within 30 days of the bearer requesting such exchange.

In the event that a Permanent Global Note is exchanged for Definitive Notes, such Definitive Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Temporary Global Note exchangeable for Definitive Notes

If the relevant Final Terms specify the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specify that the TEFRA C Rules are applicable or that neither the TEFRA C Rules nor the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole but not in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes.

If the relevant Final Terms specify the form of Notes as being "Temporary Global Note exchangeable for Definitive Notes" and also specify that the TEFRA D Rules are applicable, then the Notes will initially be in the form of a Temporary Global Note which will be exchangeable, in whole or in part, for Definitive Notes not earlier than 40 days after the issue date of the relevant Tranche of the Notes upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the Notes cannot be collected without such certification of non-U.S. beneficial ownership.

Whenever the Temporary Global Note is to be exchanged for Definitive Notes, the Bank shall procure the prompt delivery (free of charge to the bearer) of such Definitive Notes, duly authenticated and with Coupons and Talons attached (if so specified in the relevant Final Terms), in an aggregate principal amount equal to the principal amount of the Temporary Global Note to the bearer of the Temporary Global Note against the surrender of the Temporary Global Note at the specified office of the Issuing and Principal Paying Agent within 30 days of the bearer requesting such exchange.

The option for Temporary Global Notes to be exchangeable for Definitive Notes by giving notice should not be expressed to be applicable under paragraph 19 (*Bearer Notes*) of Part A of the relevant Final Terms if the relevant Notes have denominations consisting of a minimum Specified Denomination plus one or more higher integral multiples of another smaller amount. Furthermore, Notes should not be issued which have such denominations if such Notes are to be represented on issue by a Temporary Global Note exchangeable for Definitive Notes.

Clearing System Accountholders

Each Global Note will be in bearer form. Consequently, in relation to any Tranche of Notes represented by a Global Note, references in the Conditions to "**Noteholder**" are references to the bearer of the relevant Global Note which, for so long as the Global Note is held by a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, will be that depositary or common depositary.

Each of the persons shown in the records of Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system as being entitled to an interest in a Global Note (each an "**Accountholder**") must look solely to Euroclear and/or Clearstream, Luxembourg and/or such other relevant clearing system (as the case may be) for such Accountholder's share of each payment made by the Bank to the bearer of such Global Note and in relation to all other rights arising under the Global Note. The extent to which, and the manner in which, Accountholders may exercise any rights arising under the Global Note will be determined by the respective rules and procedures of Euroclear and Clearstream, Luxembourg and any other relevant clearing system from time to time. For so long as the relevant Notes are represented by the Global Note, Accountholders shall have no claim directly against the Bank in respect of payments due under the Notes and such obligations of the Bank will be discharged by payment to the bearer of the Global Note.

Conditions applicable to Global Notes

Each Global Note will contain provisions which modify the Conditions as they apply to the Global Note. The following is an overview of certain of those provisions:

Payments: All payments in respect of the Global Note made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Global Note at the specified office of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Bank in respect of the Notes. On each occasion on which a payment of principal or interest is made in respect of the Global Note, the Bank shall procure that the same is noted in a schedule thereto.

Payment Business Day: in the case of a Global Note shall be a day on which banks and foreign exchange markets are open for business in the relevant place of presentation and if the currency of payment is euro, any day which is a TARGET Settlement Day; or, if the currency of payment is not euro, any day which is a day on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency.

Exercise of put option: In order to exercise the option contained in Condition 9(e) (*Redemption at the option of Noteholders (Investor Put)*), the bearer of the Permanent Global Note must, within the period specified in the Conditions for the deposit of the relevant Note and put notice, give written notice of such exercise to the Issuing and Principal Paying Agent specifying the principal amount of Notes in respect of which such option is being exercised. Any such notice will be irrevocable and may not be withdrawn.

Partial exercise of call option: In connection with an exercise of the option contained in Condition 9(c) (*Redemption at the option of the Bank (Issuer Call)*) in relation to only some of the Notes, the Permanent Global Note may be redeemed in part in the principal amount specified by the Bank in accordance with the Conditions and the Notes to be redeemed will not be selected as provided in the Conditions.

Notices: Notwithstanding Condition 18 (*Notices*), while all the Notes are represented by a Permanent Global Note (or by a Permanent Global Note and/or a Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a depositary or a common depositary for Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and/or Clearstream, Luxembourg and/or any other relevant clearing system, **provided**, **however**, **that**, so long as the Notes are listed on the Luxembourg Stock Exchange and its rules so require, notices will also be published in a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange (www.bourse.lu).

Redenomination: If the Notes are redenominated pursuant to Condition 20 (*Redenomination, Renominalisation and Reconverting*), then the Notes shall be deemed to be redenominated into euro converted at the rate for conversion of the Specified Currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); **provided, however that**, if the Bank determines with the agreement of the Issuing and Principal Paying Agent that market practice in respect of the redenomination into euro of internationally offered securities is different from that specified above, such market practice shall prevail.

Tradable Amounts: So long as the Notes are represented by a Temporary Global Note or Permanent Global Note and the relevant Clearing System(s) so permit, the Notes will be tradable only in the minimum authorised denomination of €100,000 and higher integral multiples of €1,000, notwithstanding that no definitive notes will be issued with a denomination above €199,000.

Legend concerning United States persons

In the case of any Tranche of Notes having a maturity of more than 365 days, the Notes in global form, the Notes in definitive form and any Coupons and Talons appertaining thereto will bear a legend to the following effect:

> "ANY UNITED STATES PERSON (AS DEFINED IN THE INTERNAL REVENUE CODE OF THE UNITED STATES) WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER UNITED STATES INCOME TAX LAWS, INCLUDING THE LIMITATIONS PROVIDED IN SECTIONS 165(j) AND 1287(a) OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED."

The sections referred to in such legend provide that a United States person who holds a Note, Coupon or Talon will generally not be allowed to deduct any loss realised on the sale, exchange or redemption of such Note, Coupon or Talon and any gain (which might otherwise be characterised as capital gain) recognised on such sale, exchange or redemption will be treated as ordinary income.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, as completed by the relevant Final Terms or as applicable, the relevant Pricing Supplement, will be endorsed on each Note in definitive form issued under the Programme. The terms and conditions applicable to any Note in global form will differ from those terms and conditions which would apply to the Note were it in definitive form to the extent described under "Form of the Notes" above.

*In the case of a Tranche of Notes which will not be admitted to listing, trading on a regulated market for the purposes of EU MiFID II in the European Economic Area and/or quotation by any competent authority, stock exchange and/or quotation system ("**Exempt Notes**") and, accordingly, for which no base prospectus is required to be produced in accordance with Regulation (EU) 2017/1129 (the "**EU Prospectus Regulation**"), a pricing supplement (a "**Pricing Supplement**") will be issued describing the Final Terms of such Tranche of Exempt Notes. Each reference in these terms and conditions to "**Final Terms**" shall, in the case of a Tranche of Exempt Notes, be read and construed as a reference to such Pricing Supplement unless the context requires otherwise.*

1. **Introduction**

(a) ***Programme***: Mashreqbank psc (the "**Bank**") has established a Euro Medium Term Note Programme (the "**Programme**") for the issuance of up to U.S.$5,000,000,000 in aggregate principal amount of notes (the "**Notes**").

(b) ***Final Terms***: Notes issued under the Programme are issued in series (each a "**Series**") and each Series may comprise one or more tranches (each a "**Tranche**") of Notes. Each Tranche is the subject of Final Terms (in respect of a Tranche, together, the "**Final Terms**") which complete these terms and conditions (the "**Conditions**") (other than a Tranche of Exempt Notes which is the subject of a pricing supplement). The terms and conditions applicable to any particular Tranche of Notes are these Conditions as completed by the relevant Final Terms. In the event of any inconsistency between these Conditions and the relevant Final Terms, the relevant Final Terms shall prevail.

(c) ***Agency Agreement***: The Notes are the subject of an amended and restated issue and paying agency agreement dated 1 March 2022 (as amended or supplemented from time to time, the "**Agency Agreement**") between the Bank, The Bank of New York Mellon, London Branch as Issuing and Principal Paying Agent (the "**Issuing and Principal Paying Agent**", which expression includes any successor Issuing and Principal Paying Agent appointed from time to time in connection with the Notes), The Bank of New York Mellon SA/NV, Luxembourg Branch and the other paying agents named therein (together with the Issuing and Principal Paying Agent, the "**Agents**", which expression includes any successor or additional agents appointed from time to time in connection with the Notes).

(d) ***The Notes***: All subsequent references in these Conditions to "**Notes**" are to the Notes which are the subject of the relevant Final Terms. Copies of the relevant Final Terms are available for inspection by Noteholders during normal business hours at the Specified Office of the Issuing and Principal Paying Agent. References to the "**relevant Final Terms**" are to the Final Terms (or relevant provisions thereof) attached to or endorsed on the Notes.

(e) ***Deed of Covenant***: The Notes are the subject of a deed of covenant dated 1 March 2022 (the "**Deed of Covenant**") and made by the Bank. The original of the Deed of Covenant is held by the common depositary for Euroclear and Clearstream, Luxembourg.

(f) ***Summaries***: Certain provisions of these Conditions are summaries of the Agency Agreement and are subject to its detailed provisions. Noteholders and Couponholders, if any, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. Copies of the Agency Agreement and the Deed of Covenant are available for inspection by Noteholders during normal business hours at the Specified Offices of each of the Paying Agents.

(g) ***Copies***: Copies of the Agency Agreement and the Deed of Covenant are obtainable during normal business hours at the Specified Office of each of the Paying Agents. Copies of the relevant Final Terms may be obtained, upon request, free of charge, from the registered office of the Bank and

the Specified Offices of the Paying Agents save that, if this Note is neither admitted to trading on a regulated market in the EEA nor offered in the EEA in circumstances where a prospectus is required to be published under the EU Prospectus Regulation, the relevant Final Terms will only be obtainable by a Noteholder holding one or more Notes and such Noteholder must produce evidence satisfactory to the Bank and the relevant Paying Agent as to its holding of such Notes and identity. If this Note is admitted to trading on the Luxembourg Stock Exchange's regulated market, the relevant Final Terms will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu. The Noteholders and the Couponholders are deemed to have notice of, and are entitled to the benefit of, all the provisions of the Agency Agreement, the Deed of Covenant and the relevant Final Terms. The statements in the Conditions include summaries of, and are subject to, the detailed provisions of the Agency Agreement.

Words and expressions defined in the Agency Agreement or used in the relevant Final Terms shall have the same meanings where used in the Conditions unless the context otherwise requires or unless otherwise stated and **provided that**, in the event of inconsistency between the Agency Agreement and the relevant Final Terms, the relevant Final Terms will prevail.

2. **Definitions and Interpretation**

(a) ***Definitions***: In these Conditions the following expressions have the following meanings:

"**2006 ISDA Definitions**" means, in relation to a Series of Notes, the 2006 ISDA Definitions (as supplemented, amended and updated as at the date of issue of the first Tranche of the Notes of such Series) as published by ISDA (copies of which may be obtained from ISDA at www.isda.org);

"**2021 ISDA Definitions**" means, in relation to a Series of Notes, the latest version of the 2021 ISDA Interest Rate Derivatives Definitions (including each Matrix (and any successor Matrix thereto), as defined in such 2021 ISDA Interest Rate Derivatives Definitions) as at the date of issue of the first Tranche of Notes of such Series, as published by ISDA on its website (www.isda.org);

"**Accrual Yield**" has the meaning given in the relevant Final Terms;

"**Additional Business Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Additional Financial Centre(s)**" means the city or cities specified as such in the relevant Final Terms;

"**Adjustment Spread**" means a spread (which may be positive or negative) or formula or methodology for calculating a spread, in either case, which the Independent Adviser (in consultation with the Bank) or the Bank (as applicable), determines should be applied to the relevant Successor Rate or the relevant Alternative Reference Rate (as applicable), as a result of the replacement of the relevant Reference Rate with the relevant Successor Rate or the relevant Alternative Reference Rate (as applicable), and is the spread, formula or methodology which:

(i) in the case of a Successor Rate, is formally recommended, or formally provided as an option for parties to adopt, in relation to the replacement of the Reference Rate with the Successor Rate by any Relevant Nominating Body; or

(ii) in the case of a Successor Rate for which no such recommendation has been made or in the case of an Alternative Reference Rate, the Independent Adviser (in consultation with the Bank) or the Bank (as applicable) determines is recognised or acknowledged as being in customary market usage in international debt capital markets for the purposes of determining floating rates of interest in respect of bonds denominated in the Specified Currency, where such rate has been replaced by such Successor Rate or Alternative Reference Rate (as applicable); or

(iii) if no such customary market usage is recognised or acknowledged, the Independent Adviser in its discretion (in consultation with the Bank) or the Bank in its discretion (as applicable) determines (acting in good faith), is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Reference Rate (as the case may be); or

(iv) if no such industry standard is recognised or acknowledged, the Independent Advisor in its discretion (in consultation with the Bank) or the Bank in its discretion (as applicable) determines to be appropriate to reduce or eliminate, to the extent reasonably practicable in the circumstances, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Reference Rate with the Successor Rate or the Alternative Reference Rate (as the case may be);

"**Alternative Reference Rate**" means the reference rate (and related alternative screen page or source, if available) that the Independent Adviser or the Bank (as applicable) determines has replaced the relevant Reference Rate in customary market usage for the purposes of determining floating rates of interest in respect of bonds denominated in the Specified Currency or, if the Independent Adviser or the Bank (as applicable) determines that there is no such rate, such other rate as the Independent Adviser or the Bank (as applicable) determines, each in its own discretion, acting in good faith, is most comparable to the relevant Reference Rate (as applicable);

"**Amortisation Percentage**" means, in respect of each Interest Payment Date, the corresponding percentage figure specified in the relevant Final Terms;

"**Auditors**" means a firm of independent auditors of good repute appointed by the Bank;

"**Benchmark Event**" means:

(i) the relevant Reference Rate has ceased to be published on the Relevant Screen Page as a result of such benchmark ceasing to be calculated or administered; or

(ii) a public statement by the administrator of the relevant Reference Rate that (in circumstances where no successor administrator has been or will be appointed that will continue publication of such Reference Rate) it has ceased publishing such Reference Rate permanently or indefinitely or that it will cease to do so by a specified future date (the "**Specified Future Date**"); or

(iii) a public statement by the supervisor of the administrator of the relevant Reference Rate that such Reference Rate has been or will, by a Specified Future Date, be permanently or indefinitely discontinued; or

(iv) a public statement by the supervisor of the administrator of the relevant Reference Rate that means that such Reference Rate will, by a Specified Future Date, be prohibited from being used or that its use will be subject to restrictions or adverse consequences, either generally or in respect of the Notes; or

(v) a public statement by the supervisor of the administrator of the relevant Reference Rate (as applicable) that, in the view of such supervisor, (i) such Reference Rate is or will, by a Specified Future Date, be no longer representative of an underlying market or (ii) the methodology to calculate such Reference Rate has materially changed; or

(vi) it has or will, by a specified date within the following six months, become unlawful for the Calculation Agent to calculate any payments due to be made to any Noteholder using the relevant Reference Rate (as applicable) (including, without limitation, under the Benchmarks Regulation (EU) 2016/1011, if applicable).

Notwithstanding the sub-paragraphs above, where the relevant Benchmark Event is a public statement within sub-paragraph (ii), (iii), (iv) or (v) above and the Specified Future Date in the public statement is more than six months after the date of that public statement, the Benchmark Event shall not be deemed to occur until the date falling six months prior to such Specified Future Date;

"**Business Day**" means a day which is:

(i) a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in London, Dubai and any Additional Business Centre specified in the relevant Final Terms; and

(ii) (1) in relation to any sum payable in a Specified Currency other than euro or Renminbi, a day on which commercial banks and foreign exchange markets settle payments and are open for general business (including dealing in foreign exchange and foreign currency deposits) in the principal financial centre of the country of the relevant Specified Currency (if other than London and any Additional Business Centre and which if the Specified Currency is Australian dollars or New Zealand dollars shall be Sydney and Auckland, respectively); or (2) in relation to any sum payable in euro, a day on which the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET2) System which was launched on 19 November 2007, or any successor thereto (the "**TARGET2 System**") is open; or (3) in relation to any sum payable in Renminbi, a day (other than a Saturday or Sunday) on which commercial banks and foreign exchange markets settle payments in the applicable RMB Settlement Centre(s) (as defined below); or

(iv) in respect of Notes for which the Reference Rate is specified as SOFR in the relevant Final Terms, any weekday that is a U.S. Government Securities Business Day and is not a legal holiday in New York and each (if any) Additional Business Centre(s) and is not a date on which banking institutions in those cities are authorised or required by law or regulation to be closed;

"**Business Day Convention**", in relation to any particular date, has the meaning given in the relevant Final Terms and, if so specified in the relevant Final Terms, may have different meanings in relation to different dates and, in this context, the following expressions shall have the following meanings:

(i) "**Following Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day;

(ii) "**Modified Following Business Day Convention**" or "**Modified Business Day Convention**" means that the relevant date shall be postponed to the first following day that is a Business Day unless that day falls in the next calendar month in which case that date will be the first preceding day that is a Business Day, save in respect of Notes for which the Reference Rate is specified in the relevant Final Terms as being SOFR, for which the final Interest Payment Date will not be postponed and interest on that payment will not accrue during the period from and after the scheduled final Interest Payment Date;

(iii) "**Preceding Business Day Convention**" means that the relevant date shall be brought forward to the first preceding day that is a Business Day;

(iv) "**FRN Convention**", "**Floating Rate Convention**" or "**Eurodollar Convention**" means that each relevant date shall be the date which numerically corresponds to the preceding such date in the calendar month which is the number of months specified in the relevant Final Terms as the Specified Period after the calendar month in which the preceding such date occurred **provided**, **however**, **that**:

(A) if there is no such numerically corresponding day in the calendar month in which any such date should occur, then such date will be the last day which is a Business Day in that calendar month;

(B) if any such date would otherwise fall on a day which is not a Business Day, then such date will be the first following day which is a Business Day unless that day falls in the next calendar month, in which case it will be the first preceding day which is a Business Day; and

(C) if the preceding such date occurred on the last day in a calendar month which was a Business Day, then all subsequent such dates will be the last day which is a Business Day in the calendar month which is the specified number of months after the calendar month in which the preceding such date occurred; and

(v) "**No Adjustment**" means that the relevant date shall not be adjusted in accordance with any Business Day Convention;

"**Calculation Agent**" means the Issuing and Principal Paying Agent or such other Person specified in the relevant Final Terms as the party responsible for calculating the Rate(s) of Interest and Interest Amount(s) and/or such other amount(s) as may be specified in the relevant Final Terms;

"**Calculation Amount**" has the meaning given thereto in the relevant Final Terms;

"**Coupon**" means an interest coupon pertaining to a Note;

"**Couponholder**" means the holder of a Coupon;

"**Coupon Sheet**" means, in respect of a Note, a coupon sheet relating to such Note;

"**Day Count Fraction**" means, in respect of the calculation of an amount for any period of time (the "**Calculation Period**"), such day count fraction as may be specified in these Conditions or the relevant Final Terms and:

(i) if "**Actual/Actual (ICMA)**" is so specified, means:

(a) where the Calculation Period is equal to or shorter than the Regular Period during which it falls, the actual number of days in the Calculation Period divided by the product of: (1) the actual number of days in such Regular Period; and (2) the number of Regular Periods normally ending in any year; and

(b) where the Calculation Period is longer than one Regular Period, the sum of:

(A) the actual number of days in such Calculation Period falling in the Regular Period in which it begins divided by the product of: (1) the actual number of days in such Regular Period; and (2) the number of Regular Periods in any year; and

(B) the actual number of days in such Calculation Period falling in the next Regular Period divided by the product of: (a) the actual number of days in such Regular Period; and (b) the number of Regular Periods normally ending in any year;

(ii) if "**Actual/365**" or "**Actual/Actual (ISDA)**" is so specified, means the actual number of days in the Calculation Period divided by 365 (or, if any portion of the Calculation Period falls in a leap year, the sum of: (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and (B) the actual number of days in that portion of the Calculation Period falling in a non leap year divided by 365);

(iii) if "**Actual/365 (Fixed)**" is so specified, means the actual number of days in the Calculation Period divided by 365;

(iv) if "**Actual/360**" is so specified, means the actual number of days in the Calculation Period divided by 360;

(v) if "**30/360**" is so specified, means the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D_1 is greater than 29, in which case D_2 will be 30;

(vi) if "**30E/360**" or "**Eurobond Basis**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day inducted in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D_2 will be 30; and

(vii) if "**30E/360 (ISDA)**" is so specified, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$\text{Day Count Fraction} = \frac{[360 \times (Y_2 - Y_1)] + [30 \times (M_2 - M_1)] + (D_2 - D_1)}{360}$$

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, unless: (i) that day is the last day of February; or (ii) such number would be 31, in which case D_1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless: (i) that day is the last day of February but not the maturity date as set out in the Final Terms (the "**Maturity Date**"); or (ii) such number would be 31, in which case D_2 would be 30, **provided**, **however**, **that** in each such case the number of days in the Calculation Period is calculated from and including the first day of the Calculation Period to but excluding the last day of the Calculation Period.

"**Early Redemption Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Early Termination Amount**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, these Conditions;

"**EU Prospectus Regulation**" means Regulation (EU) 2017/1129;

"**Exempt Notes**" means Notes issued under the Programme for which no base prospectus is required to be published under the EU Prospectus Regulation;

"**Extraordinary Resolution**" has the meaning given in the Agency Agreement;

"**Final Redemption Amount**" means, in respect of any Note, its principal amount;

"**Fixed Coupon Amount**" has the meaning given in the relevant Final Terms;

"**Governmental Authority**" means any *de facto* or *de jure* government (or any agency or instrumentality thereof), court, tribunal, administrative or other governmental authority or any other entity (private or public) charged with the regulation of the financial markets (including the central bank) of the applicable RMB Settlement Centre(s);

"**Group**" means the Bank, its holding company (if any) and the Subsidiaries of the Bank or of any such holding company for the time being;

"**Holder**" or "**Noteholder**" means the holder of a Note;

"**Indebtedness**" means any indebtedness of any Person for money borrowed or raised including (without limitation) any indebtedness for or in respect of:

(i) amounts raised by acceptance under any acceptance credit facility;

(ii) amounts raised under any note purchase facility;

(iii) the amount of any liability in respect of leases or hire purchase contracts which would, in accordance with applicable law and generally accepted accounting principles, be treated as finance or capital leases;

(iv) the amount of any liability in respect of any purchase price for assets or services the payment of which is deferred for a period in excess of 60 days; and

(v) amounts raised under any other transaction (including, without limitation, any forward sale or purchase agreement) having the commercial effect of a borrowing;

"**Independent Adviser**" means an independent financial institution of international repute or other independent financial adviser experienced in the international capital markets, in each case appointed by the Bank at its own expense;

"**Interest Amount**" means, in relation to a Note and an Interest Period, the amount of interest payable in respect of that Note for that Interest Period (other than Adjusted RMB Fixed Rate Notes);

"**Interest Commencement Date**" means the Issue Date of the Notes or such other date as may be specified as the Interest Commencement Date in the relevant Final Terms;

"**Interest Determination Date**" has the meaning given in the relevant Final Terms;

"**Interest Payment Date**" means the date or dates specified as such in, or determined in accordance with the provisions of, the relevant Final Terms and, if a Business Day Convention is specified in the relevant Final Terms:

(i) as the same may be adjusted in accordance with the relevant Business Day Convention; or

(ii) if the Business Day Convention is the FRN Convention, Floating Rate Convention or Eurodollar Convention and an interval of a number of calendar months is specified in the relevant Final Terms as being the Specified Period, each of such dates as may occur in accordance with the FRN Convention, Floating Rate Convention or Eurodollar Convention at such Specified Period of calendar months following the Interest Commencement Date (in the case of the first Interest Payment Date) or the previous Interest Payment Date (in any other case);

"**Interest Period**" means each period beginning on (and including) the Interest Commencement Date or any Interest Payment Date and ending on (but excluding) the next Interest Payment Date (or, if the Notes are redeemed on any earlier date, the relevant redemption date);

"**ISDA**" means the International Swaps and Derivatives Association, Inc. (or any successor);

"**ISDA Definitions**" has the meaning given in the relevant Final Terms;

"**Issue Date**" has the meaning given in the relevant Final Terms;

"**Make Whole Redemption Amount**" means, with respect to any Note to which the Floating Rate Note Provisions apply, the principal amount of such Note multiplied by the applicable Amortisation Percentage relating to the Interest Payment Date on which such Note is to be redeemed in accordance with Condition 9(f) (*Regulatory Redemption Event*) and, in relation to any Note to which the Fixed Rate Note Provisions apply, the amount specified in the relevant Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Margin**" has the meaning given in the relevant Final Terms;

"**Material Subsidiary**" shall mean a Subsidiary of the Bank or of its holding company (if any) the book value of the assets of which exceeds five per cent. of the book value of the assets of the Group taken as a whole or the revenues of which exceed five per cent. of the revenues of the Group taken as a whole or the net income of which exceeds five per cent. of the net income of the Group taken as a whole and, for these purposes:

(i) the book value of the assets, the revenues and the net income of such Subsidiary shall be determined by reference to its then most recent audited annual financial statements (or, if none, its then most recent management accounts); and

(ii) the book value of the assets and the revenues of the Group shall be determined by reference to its then most recent audited annual consolidated financial statements,

in each case adjusted, as the Auditors may consider appropriate, to take account of any changes in circumstances since the date as of which such financial statements (or management accounts) were prepared.

A report of the Auditors that in their opinion a company or corporation is or is not or was or was not at any particular time or throughout any specified period a Material Subsidiary shall, in the absence of manifest error, be conclusive and binding on all parties;

"**Maturity Date**" has the meaning given in the relevant Final Terms;

"**Maximum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Minimum Redemption Amount**" has the meaning given in the relevant Final Terms;

"**Optional Redemption Amount (Call)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Amount (Put)**" means, in respect of any Note, its principal amount or such other amount as may be specified in, or determined in accordance with, the relevant Final Terms;

"**Optional Redemption Date (Call)**" has the meaning given in the relevant Final Terms;

"**Optional Redemption Date (Put)**" has the meaning given in the relevant Final Terms;

"**Participating Member State**" means a Member State of the European Union which adopts the euro as its lawful currency in accordance with the Treaty;

"**Payment Business Day**" means:

(i) if the currency of payment is euro, any day which is:

(A) in the case of Definitive Notes, a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a TARGET Settlement Day and a day on which dealings in foreign currencies may be carried on in each (if any) Additional Financial Centre; or

(ii) if the currency of payment is not euro, any day which is:

(A) in the case of Definitive Notes, a day on which banks in the relevant place of presentation are open for presentation and payment of bearer debt securities and for dealings in foreign currencies; and

(B) in the case of payment by transfer to an account, a day on which dealings in foreign currencies may be carried on in the Principal Financial Centre of the currency of payment and in each (if any) Additional Financial Centre;

"**Permitted Security Interests**" means:

(i) any Security Interest granted upon or with regard to any asset or property hereafter acquired by the Bank or any Material Subsidiary to secure the purchase price of such property (and transactional expenses related to such acquisition) or to secure Indebtedness incurred solely for the purpose of financing the acquisition of such property (including interest accrued thereon) and transactional expenses related to such acquisition, including any Security Interest existing at the time of its acquisition (other than a Security Interest created in contemplation of such acquisition); **provided**, **however**, **that** the maximum sum secured by such Security Interest shall not exceed the U.S. dollar equivalent on the date of purchase of the purchase price of such property (including transactional expenses) or the U.S. dollar equivalent on the date of the incurrence of the Indebtedness (including interest accrued thereon) incurred solely for the purpose of financing the acquisition of such property (including transactional expenses);

(ii) any Security Interest arising in the ordinary course of the Bank's banking business or of the respective business activities of its Material Subsidiaries including, without limitation, sale and repurchase transactions and share, loan and bond lending transactions, **provided that** any such Security Interest is limited to the assets which are the subject of the relevant transaction;

(iii) any Security Interest in respect of any Indebtedness, **provided that** the aggregate outstanding amount secured thereby shall not at any time exceed an amount equal to 5 per cent. of the aggregate of the share capital and reserves of the Bank and its Subsidiaries, as provided in its most recent audited accounts;

(iv) any Security Interest created or outstanding with the prior approval by an Extraordinary Resolution of the Noteholders;

(v) any Security Interest in existence on the date hereof and any extension, renewal or replacement thereof; **provided**, **however**, **that** the total amount of Indebtedness so secured shall not exceed the U.S. dollar equivalent of the amount so secured on the date hereof; and

(vi) any Security Interest arising by operation of law and in the normal course of business, if such Security Interest is discharged within thirty days of arising;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

"**Principal Financial Centre**" means, in relation to any currency, the principal financial centre for that currency **provided**, **however**, **that**:

(i) in relation to euro, it means the principal financial centre of such Member State of the European Union as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent; and

(ii) in relation to Australian dollars, it means Sydney and, in relation to New Zealand dollars, it means either Wellington or Auckland as is selected (in the case of a payment) by the payee or (in the case of a calculation) by the Calculation Agent;

"**Put Option Notice**" means a notice which must be delivered to a Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Put Option Receipt**" means a receipt issued by a Paying Agent to a depositing Noteholder upon deposit of a Note with such Paying Agent by any Noteholder wanting to exercise a right to redeem a Note at the option of the Noteholder;

"**Rate Calculation Business Day**" means a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in the applicable RMB Settlement Centre(s), London and the principal financial centre of the country of the Relevant Currency;

"**Rate Calculation Date**" means the day which is two Rate Calculation Business Days before the due date of the relevant payment under the Notes;

"**Rate of Interest**" means the rate or rates (expressed as a percentage per annum) of interest payable in respect of the Notes specified in the relevant Final Terms or calculated or determined in accordance with the provisions of these Conditions and/or the relevant Final Terms;

"**Redemption Amount**" means, as appropriate, the Final Redemption Amount, the Early Redemption Amount, the Optional Redemption Amount (Call), the Optional Redemption Amount (Put), the Early Termination Amount, the Make Whole Redemption Amount or such other amount in the nature of a redemption amount as may be specified in, or determined in accordance with the provisions of, the relevant Final Terms;

"**Reference Banks**" means the four (or if the Principal Financial Centre is Helsinki, five) major banks selected by the Bank in the market that is most closely connected with the Reference Rate;

"**Reference Price**" has the meaning given in the relevant Final Terms;

"**Reference Rate**" has the meaning given in the relevant Final Terms;

"**Regular Period**" means:

(i) in the case of Notes where interest is scheduled to be paid only by means of regular payments, each period from and including the Interest Commencement Date to but excluding the first Interest Payment Date and each successive period from and including one Interest Payment Date to but excluding the next Interest Payment Date;

(ii) in the case of Notes where, apart from the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls; and

(iii) in the case of Notes where, apart from one Interest Period other than the first Interest Period, interest is scheduled to be paid only by means of regular payments, each period from and including a Regular Date falling in any year to but excluding the next Regular Date, where "**Regular Date**" means the day and month (but not the year) on which any Interest Payment Date falls other than the Interest Payment Date falling at the end of the irregular Interest Period;

"**Regulator**" means the Central Bank of the UAE, including any successor thereto as the relevant regulator of banks in the UAE;

"**Regulatory Redemption Event**" means, in respect of any Note, any change to any applicable regulatory rules or to the application or official interpretation thereof at any relevant time which has been previously announced in an official publication of the Regulator or of any other relevant governmental, regulatory or judicial body in the UAE and by reason of which such Note would not on the next Interest Payment Date thereafter be capable of being counted as Tier II (supplementary) Capital, **provided that** such Note has qualified as Tier II (supplementary) Capital at any time following the date on which it was issued;

"**Regulatory Redemption Event Period**" means the period from and including the Interest Commencement Date to and including the Step-Up Date;

"**Relevant Currency**" has the meaning given in the relevant Final Terms;

"**Relevant Date**" means, in relation to any payment, whichever is the later of: (a) the date on which the payment in question first becomes due; and (b) if the full amount payable has not been received in the Principal Financial Centre of the currency of payment by the Issuing and Principal Paying Agent on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders;

"**Relevant Nominating Body**" means, in respect of a reference rate:

(i) the central bank, reserve bank, monetary authority or any similar institution for the currency to which such reference rate relates, or any other central bank or other supervisory authority which is responsible for supervising the administrator of such reference rate; or

(ii) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of (a) the central bank, reserve bank, monetary authority or any similar institution for the currency to which such reference rate relates, (b) any central bank or other supervisory authority which is responsible for supervising the administrator of such reference rate, (c) a group of the aforementioned central banks or other supervisory authorities, (d) the International Swaps and Derivatives Association, Inc. or any part thereof, or I the Financial Stability Board or any part thereof; and

"**Renminbi**" or "**RMB**" means the lawful currency for the time being of the People's Republic of China (the "**PRC**"), which, for these purposes, excludes the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan;

"**Relevant Financial Centre**" has the meaning given in the relevant Final Terms;

"**Relevant Screen Page**" means the page, section or other part of a particular information service (including, without limitation, the Reuters Markets 3000 and the Bridge/Telerate Service) specified as the Relevant Screen Page in the relevant Final Terms, or such other page, section or other part as may replace it on that information service or such other information service, in each case, as may be nominated by the Person providing or sponsoring the information appearing there for the purpose of displaying rates or prices comparable to the Reference Rate;

"**Relevant Time**" has the meaning given in the relevant Final Terms;

"**Reserved Matter**" means any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to change the currency of any payment under the Notes or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution;

"**RMB Currency Events**" means, with respect to any Notes where the Relevant Currency is Renminbi, any one of RMB Illiquidity, RMB Non-Transferability and RMB Inconvertibility;

"**RMB Illiquidity**" means the general RMB exchange market in the applicable RMB Settlement Centre(s) becomes illiquid as a result of which the Bank cannot obtain sufficient RMB in order to make a payment under the Notes, as determined by the Bank in a commercially reasonable manner following consultation with two independent foreign exchange dealers of international repute active in the RMB exchange market in the applicable RMB Settlement Centre(s);

"**RMB Inconvertibility**" means the occurrence of any event that makes it impossible for the Bank to convert any amount due in respect of the Notes into RMB on any payment date in the general RMB exchange market in the applicable RMB Settlement Centre(s), other than where such impossibility is due solely to the failure of the Bank to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Bank, due to an event beyond its control, to comply with such law, rule or regulation);

"**RMB Non-Transferability**" means the occurrence of any event that makes it impossible for the Bank to deliver RMB between accounts inside the applicable RMB Settlement Centre(s) or from an account inside the applicable RMB Settlement Centre(s) to an account outside the applicable RMB Settlement Centre(s) (including where the RMB clearing and settlement system for participating banks in the applicable RMB Settlement Centre(s) is disrupted or suspended), other than where such impossibility is due solely to the failure of the Bank to comply with any law, rule or regulation enacted by any Governmental Authority (unless such law, rule or regulation is enacted after the Issue Date of the first Tranche of the relevant Series and it is impossible for the Bank, due to an event beyond its control, to comply with such law, rule or regulation);

"**RMB Settlement Centre(s)**" means the financial centre(s) specified as such in the relevant Final Terms in accordance with applicable laws and regulations. If no RMB Settlement Centre is specified in the relevant Final Terms, the RMB Settlement Centre shall be deemed to be Hong Kong;

"**Security Interest**" means any mortgage, mortgage prenotation, charge, pledge, lien or other security interest including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction;

"**Senior Creditors**" means creditors of the Bank (including depositors), other than creditors in respect of indebtedness where, by the terms of such indebtedness, the claims of the holders of that indebtedness rank or are expressed to rank *pari passu* with, or junior to, the claims of the Bank's subordinated and unsecured creditors, save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application;

"**Senior Notes**" means Notes issued under the Programme on a senior or unsubordinated basis as described under Condition 4(a) (*Status of the Senior Notes*);

"**Specified Currency**" has the meaning given in the relevant Final Terms;

"**Specified Denomination(s)**" has the meaning given in the relevant Final Terms save that the minimum denomination of each Note will be euro 100,000 (or its equivalent in a relevant Specified Currency);

"**Specified Office**" of any Agent means the office specified against its name in the Agency Agreement or any other address as the Agent has, by prior written notice to the sender, specified for the relevant purpose;

"**Specified Period**" has the meaning given in the relevant Final Terms;

"**Spot Rate**" means the spot RMB/Relevant Currency exchange rate for the purchase of the Relevant Currency with Renminbi in the over-the-counter Renminbi exchange market in the applicable RMB Settlement Centre(s) for settlement in two Rate Calculation Business Days, as determined by the Calculation Agent at or around 11.00 a.m. (local time at the applicable RMB Settlement Centre(s)) on the Rate Calculation Date, on a deliverable basis by reference to the Relevant Spot Rate Screen Page (Deliverable Basis) (as specified in the relevant Final Terms), or if no such rate is available, on a non-deliverable basis by reference to the Relevant Spot Rate Screen Page (Non-deliverable Basis) (as specified in the relevant Final Terms). If neither rate is available, the Calculation Agent shall determine the rate taking into consideration all available information which the Calculation Agent deems relevant, including pricing information obtained from the Renminbi non-deliverable exchange market in the applicable RMB Settlement Centre(s) or elsewhere and the RMB/Relevant Currency exchange rate in the PRC domestic foreign exchange market;

"**Step-Up Date**" means the fifth anniversary of the Issue Date of the Notes;

"**Subordinated Notes**" means Notes issued under the Programme on a subordinated basis as described under Condition 4(b) (*Status of the Subordinated Notes*);

"**Subsidiary**" means, in relation to any Person (the "**first Person**") at any particular time, any other Person (the "**second Person**"):

(i) whose affairs and policies the first Person controls, whether by ownership of share capital, contract, the power to appoint or remove members of the governing body of the second Person or otherwise; or

(ii) whose financial statements are, in accordance with applicable law and generally accepted accounting principles, consolidated with those of the first Person;

"**Successor Rate**" means the reference rate (and related alternative screen page or source, if available) that the Independent Adviser or the Bank (as applicable) determines is a successor to or replacement of the relevant Reference Rate (for the avoidance of doubt, whether or not such Reference Rate has ceased to be available) which is recommended by any Relevant Nominating Body;

"**Talon**" means a talon for further Coupons;

"**Tier II (supplementary) Capital**" has the meaning set out in Circular 13/93 relating to Capital Adequacy published on 14 April, 1993 by the Regulator (as the same may be supplemented, amended and/or replaced from time to time);

"**TARGET Settlement Day**" means any day on which the TARGET2 System is open;

"**Treaty**" means the Treaty establishing the European Communities, as amended;

"**U.S. Government Securities Business Day**" has the meaning given to it in Condition 7(d) (*Screen Rate Determination for Floating Rate Notes referencing SOFR*); and

"**Zero Coupon Note**" means a Note specified as such in the relevant Final Terms.

(b) ***Interpretation***: In these Conditions:

(i) if the Notes are Zero Coupon Notes, references to Coupons and Couponholders are not applicable;

(ii) each reference to "Final Terms" shall, in the case of a Tranche of Exempt Notes, be read and construed as a reference to a Pricing Supplement unless the context requires otherwise;

(iii) if Talons are specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Coupons shall be deemed to include references to Talons;

(iv) if Talons are not specified in the relevant Final Terms as being attached to the Notes at the time of issue, references to Talons are not applicable;

(v) any reference to principal shall be deemed to include the Redemption Amount, any additional amounts in respect of principal which may be payable under Condition 11 (*Taxation*), any premium payable in respect of a Note and any other amount in the nature of principal payable pursuant to these Conditions;

(vi) any reference to interest shall be deemed to include any additional amounts in respect of interest which may be payable under Condition 11 (*Taxation*) and any other amount in the nature of interest payable pursuant to these Conditions;

(vii) references to Notes being "outstanding" shall be construed in accordance with the Agency Agreement; and

(viii) if an expression is stated in Condition 2(a) (*Definitions*) to have the meaning given in the relevant Final Terms, but the relevant Final Terms gives no such meaning or specifies that such expression is "not applicable" then such expression is not applicable to the Notes.

3. **Form, Denomination and Title**

The Notes are in bearer form and, in the case of definitive Notes, serially numbered, in the Specified Currency and the Specified Denomination. Notes are issued in the Specified Denomination(s), except that the minimum denomination of each Note admitted to trading on an exchange of a Member State of the EEA or offered to the public in a Member State of the EEA or in the UK in circumstances which would otherwise require the publication of a prospectus under the EU Prospectus Regulation or Regulation (EU) 2017/1129 as it forms part of domestic law in the United Kingdom by virtue of the European Union (Withdrawal) Act 2018 will be €100,000 (or its equivalent in a relevant Specified Currency), and save for Zero Coupon Notes, Coupons and, if specified in the relevant Final Terms, Talons attached at the time of issue. In the case of a Series of Notes with more than one Specified Denomination, Notes of one Specified Denomination will not be exchangeable for Notes of another Specified Denomination. Subject as set out below, title to Notes and Coupons will pass by delivery. The holder of any Note or Coupon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof). But, in the case of any Global Note, without prejudice to the provisions set out in the next succeeding paragraph, no Person shall be liable for so treating such Holder.

The Notes are Senior Notes or Subordinated Notes as specified in the relevant Final Terms.

For so long as any of the Notes is represented by a Global Note held on behalf of Euroclear Bank SA/NV ("**Euroclear**") and/or Clearstream Banking S.A. ("**Clearstream, Luxembourg**"), each person (other than Euroclear or Clearstream, Luxembourg) who is for the time being shown in the records of Euroclear or of Clearstream, Luxembourg as the holder of a particular principal amount of such Notes (in which regard any certificate or other document issued by Euroclear or

Clearstream, Luxembourg as to the principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be treated by the Bank and the Agents as the holder of such principal amount of such Notes for all purposes other than with respect to the payment of principal or interest on such principal amount of such Notes, for which purpose the bearer of the relevant Global Note shall be treated by the Bank and any Agent as the holder of such principal amount of such Notes in accordance with and subject to the terms of the relevant Global Note and the expressions "**Noteholder**", "**Holder**" and "**holder of Notes**" and related expressions shall be construed accordingly.

So long as Notes are represented by a Temporary Global Note or Permanent Global Note and the relevant Clearing System(s) so permit, the Notes shall be tradable only in principal amounts of at least the Specified Denomination (or if more than one Specified Denomination, the lowest Specified Denomination) and integral multiples of the tradable amount in excess thereof as specified in the relevant Final Terms.

Notes which are represented by a Global Note will be transferable only in accordance with the rules and procedures for the time being of Euroclear and Clearstream, Luxembourg, as the case may be.

References to Euroclear and/or Clearstream, Luxembourg shall, whenever the context so permits, be deemed to include a reference to any additional or alternative clearing system specified in the relevant Final Terms or as may otherwise be approved by the Bank and the Issuing and Principal Paying Agent.

4. **Status of the Notes**

(a) ***Status of the Senior Notes***: Notes issued on a senior or unsubordinated basis, as specified in the relevant Final Terms ("**Senior Notes**"), are direct, unconditional, unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured obligations of the Bank and rank *pari passu* among themselves and at least *pari passu* with the claims of the Bank's unsubordinated and (subject to the provisions of Condition 5 (*Negative Pledge*)) unsecured creditors, from time to time outstanding, save those whose claims are preferred solely by any bankruptcy, insolvency, liquidation or other similar laws of general application.

(b) ***Status of the Subordinated Notes***: Notes issued on a subordinated basis, as specified in the relevant Final Terms ("**Subordinated Notes**"), are direct, conditional as described below and unsecured obligations of the Bank and rank *pari passu* among themselves. The payment obligations of the Bank in respect of the Subordinated Notes (whether on account of principal, interest or otherwise) will be subordinated to all unsubordinated payment obligations of the Bank in the manner described below but will rank *pari passu* with all other subordinated payment obligations of the Bank which do not rank or are not expressed by their terms to rank junior to the payment obligations under the Subordinated Notes and in priority to all claims of shareholders of the Bank. The rights of the holders of the Subordinated Notes against the Bank are subordinated in right of payment to the claims of all Senior Creditors of the Bank and accordingly payments in respect of the Subordinated Notes (whether on account of principal, interest or otherwise) by the Bank are conditional upon the Bank being solvent at the time of such payment and no payment shall be payable by the Bank in respect of the Subordinated Notes except to the extent that the Bank could make such payment and any other payment required to be made to a creditor in respect of indebtedness which ranks or is expressed to rank *pari passu* with the Subordinated Notes and still be solvent immediately thereafter. For this purpose, the Bank shall be solvent if: (i) it is able to pay its debts as they fall due; and (ii) its assets exceed its liabilities. Each holder of a Subordinated Note unconditionally and irrevocably waives any right of set-off, counter-claim, abatement or other similar remedy, which it might otherwise have, under the laws of any jurisdiction, in respect of such Subordinated Note. No collateral is or will be given for the payment obligations under the Subordinated Notes and any collateral that may have been or may in the future be given in connection with other indebtedness of the Bank shall not secure the payment obligations under the Subordinated Notes.

5. **Negative Pledge**

This Condition 5 applies only to Senior Notes.

So long as any Note shall remain outstanding, the Bank shall ensure that neither the Bank nor any of its Material Subsidiaries shall create or suffer to exist any Security Interest (other than Permitted Security Interests) on or with respect to any of its undertakings, assets, properties or revenues, whether now owned or hereafter acquired to secure any Specified Indebtedness of the Bank or any Material Subsidiary or any obligation, whether actual or contingent, of the Bank or any Material Subsidiary under the guarantee of, or indemnity in respect of, Specified Indebtedness of others without at the same time or prior thereto: (i) securing the Notes equally and rateably therewith; or (ii) providing such other security for the Notes as may be approved by an Extraordinary Resolution of Noteholders.

For the purposes of these Conditions, "**Specified Indebtedness**" means any loan or indebtedness either of which is in the form of, or is represented by, bonds, notes, debentures or other securities which are, or are intended to be, or are capable of being, quoted, listed, dealt in or traded on any stock exchange, over-the-counter or other established securities market.

6. **Fixed Rate Note Provisions**

(a) ***Application***: This Condition 6 is applicable to the Notes only if the Fixed Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) ***Accrual of interest***: The Notes (other than where the Specified Currency is Renminbi and the relevant Final Terms specifies a Business Day Convention to be applicable) bear interest from, and including, the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments*) as applicable. In the case of a Fixed Rate Note where the Relevant Currency is RMB and the relevant Final Terms specifies a Business Day Convention to be applicable (an "**Adjusted RMB Fixed Rate Note**"), each Interest Payment Date (and, accordingly, the relevant Calculation Period) will be adjusted (if required) in accordance with the relevant Business Day Convention. Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 6 (both before and after judgment) until whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Issuing and Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The Adjusted RMB Fixed Rate Notes bear interest on their outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. For this purpose, "**Interest Payment Date**" means the Interest Payment Date(s) specified as such in the relevant Final Terms as adjusted in accordance with the applicable Business Day Convention. The amount of interest payable on each Interest Payment Date in respect of the Fixed Interest Period ending on (but excluding) such Interest Payment Date will be calculated by multiplying the product of the Rate of Interest and the outstanding nominal amount of that Adjusted RMB Fixed Rate Note by the applicable Day Count Fraction and rounding the resultant figure to the nearest CNY0.01, CNY0.005 being rounded upwards. Each such calculation will be made by the Calculation Agent. For this purpose, "**Fixed Interest Period**" means the period from (and including) an Interest Payment Date (or the Interest Commencement Date) to (but excluding) the next (or first) Interest Payment Date.

(c) ***Fixed Coupon Amount***: The amount of interest payable in respect of each Note for any Interest Period shall be the relevant Fixed Coupon Amount and, if the Notes are in more than one Specified Denomination, shall be the relevant Fixed Coupon Amount in respect of the relevant Specified Denomination.

(d) ***Calculation of interest amount***: The amount of interest payable in respect of each Note for any period for which a Fixed Coupon Amount is not specified and in respect of the Calculation Periods relating to Adjusted RMB Fixed Rate Notes shall be calculated by applying the Rate of Interest to the Calculation Amount, multiplying the product by the relevant Day Count Fraction and rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination

of such Note divided by the Calculation Amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(e) ***RMB Currency Event***: If "RMB Currency Event" is specified as being applicable in the relevant Final Terms and a RMB Currency Event, as determined by the Bank acting in good faith and in a commercially reasonable manner, exists on a date for payment of any amount in respect of any Note or Coupon, the Bank's obligation to make a payment in RMB under the terms of the Notes may be replaced by an obligation to pay such amount in the Relevant Currency (as specified in the relevant Final Terms) converted using the Spot Rate for the relevant Rate Calculation Date. Upon the occurrence of a RMB Currency Event, the Bank shall give notice as soon as practicable to the Noteholders in accordance with Condition 18 (*Notices*) stating the occurrence of the RMB Currency Event, giving details thereof and the action proposed to be taken in relation thereto.

(f) ***RMB account***: Notwithstanding the foregoing, all payments in respect of any Note or Coupon in Renminbi will be made solely by credit to a Renminbi account maintained by the payee at a bank in the applicable RMB Settlement Centre(s) in accordance with applicable laws, rules, regulations and guidelines issued from time to time (including all applicable laws and regulations with respect to the settlement of Renminbi in the applicable RMB Settlement Centre(s)).

7. Floating Rate Note Provisions

(a) ***Application***: This Condition 7 is applicable to the Notes only if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable.

(b) ***Accrual of interest***: The Notes bear interest from, and including, the Interest Commencement Date at the Rate of Interest payable in arrear on each Interest Payment Date, subject as provided in Condition 10 (*Payments*). Each Note will cease to bear interest from the due date for final redemption unless, upon due presentation, payment of the Redemption Amount is improperly withheld or refused, in which case it will continue to bear interest in accordance with this Condition 7 (both before and after judgment) until whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Issuing and Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

(c) ***Screen Rate Determination for Floating Rate Notes not referencing SOFR, SONIA or €STR***: Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined and the Reference Rate is specified in the relevant Final Terms as being a Reference Rate other than SOFR, SONIA or €STR, the Rate of Interest applicable to the Notes for each Interest Period will be determined by the Calculation Agent on the following basis:

(i) if the Reference Rate is a composite quotation or customarily supplied by one entity, the Calculation Agent will determine the Reference Rate which appears on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(ii) if Linear Interpolation is specified as applicable in respect of an Interest Period in the relevant Final Terms, the rate for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date, where;

(A) one rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(B) the other rate shall be determined as if the relevant Interest Period were the period of time for which rates are available next longer than the length of the relevant Interest Period;

provided, however, that if no rate is available for a period of time next shorter or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall determine such rate at such time and by reference to such sources as the Bank determines appropriate for such purposes;

(iii) in any other case, the Calculation Agent will determine the arithmetic mean of the Reference Rates which appear on the Relevant Screen Page as of the Relevant Time on the relevant Interest Determination Date;

(iv) if, in the case of paragraph (i) above, such rate does not appear on that page or, in the case of (ii) above, fewer than two such rates appear on that page or if, in either case, the Relevant Screen Page is unavailable, the Calculation Agent will:

(A) request the principal Relevant Financial Centre office of each of the Reference Banks to provide a quotation of the Reference Rate at approximately the Relevant Time on the Interest Determination Date to prime banks in the Relevant Financial Centre interbank market in an amount that is representative for a single transaction in that market at that time; and

(B) determine the arithmetic mean of such quotations; and

(v) if fewer than two such quotations are provided as requested, the Calculation Agent will determine the arithmetic mean of the rates (being the nearest to the Reference Rate, as determined by the Calculation Agent) quoted by major banks in the Principal Financial Centre of the Specified Currency, selected by the Calculation Agent, at approximately 11.00 a.m. (local time in the Principal Financial Centre of the Specified Currency) on the first day of the relevant Interest Period for loans in the Specified Currency to leading European banks for a period equal to the relevant Interest Period and in an amount that is representative for a single transaction in that market at that time,

and the Rate of Interest for such Interest Period shall be the sum of the Margin and the rate or (as the case may be) the arithmetic mean so determined; **provided**, **however**, **that** if the Calculation Agent is unable to determine a rate or (as the case may be) an arithmetic mean in accordance with the above provisions in relation to any Interest Period, the Rate of Interest applicable to the Notes during such Interest Period will be the sum of the Margin and the rate (or as the case may be) the arithmetic mean last determined in relation to the Notes in respect of a preceding Interest Period.

(d) ***Screen Rate Determination for Floating Rate Notes referencing SOFR, SONIA or €STR***:

(i) Where Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, Index Determination is specified in the relevant Final Terms as not applicable and the Reference Rate specified in the relevant Final Terms is SOFR, SONIA or €STR, the Rate of Interest applicable to the Notes for each Interest Period will, subject as provided below, be:

(A) Where the Calculation Method in respect of the relevant Series of Notes is specified in the relevant Final Terms as being "Compounded Daily", the Rate of Interest for each Interest Period will, subject as provided below, be the Compounded Daily Reference Rate plus or minus (as specified in the relevant Final Terms) the Margin, all as determined by the Calculation Agent on the relevant Interest Determination Date and the resulting percentage will be rounded, if necessary, to the Relevant Decimal Place.

(B) Where the Calculation Method in respect of the relevant Series of Notes is specified in the relevant Final Terms as being "Weighted Average", the Rate of Interest for each Interest Period will, subject as provided below, be the Weighted Average Reference Rate plus or minus (as indicated in the relevant Final Terms) the Margin, as calculated by the Calculation Agent on the relevant Interest Determination Date and the resulting percentage will be rounded, if necessary, to the Relevant Decimal Place.

(ii) Where "SONIA" is specified as the Reference Rate in the relevant Final terms, subject to Condition 7(i)(v) (*Benchmark Replacement – Independent Advisor*), if, in respect of any Business Day, the Reference Rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA rate shall be:

(A) (i) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at 5.00 p.m. (London time) (or, if earlier, close of business) on the relevant Business Day; plus (ii) the mean of the spread of the SONIA rate to the Bank Rate over the previous five days on which a SONIA reference rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads); or

(B) if the Bank Rate is not published by the Bank of England at 5.00 p.m. (London time) (or, if earlier, close of business) on the relevant Business Day, the SONIA rate published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) for the first preceding Business Day on which the SONIA rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors),

and, in each case, "r" shall be interpreted accordingly.

(iii) Where "SOFR" is specified as the Reference Rate in the relevant Final Terms, subject to Condition 7(j) (*Benchmark Replacement – SOFR*), if, in respect of any Business Day, the Reference Rate is not available on the Relevant Screen Page, such Reference Rate shall be the SOFR for the first preceding Business Day on which the SOFR was published on the Relevant Screen Page; (and "r" shall be interpreted accordingly).

(iv) Where "€STR" is specified as the Reference Rate in the relevant Final Terms, subject to Condition 7(i)(v) (*Benchmark Replacement – Independent Advisor*), if, in respect of any Business Day, the Reference Rate does not appear on the Relevant Screen Page, such Reference Rate shall be the €STR for the first preceding Business Day on which the €STR was published on the Relevant Screen Page; (and "r" shall be interpreted accordingly).

(v) For the purposes of this Condition 7(d)

"**Applicable Period**" means in relation to any Interest Period:

(A) where "Lag" or "Lock-out" is specified as the Observation Method in the relevant Final Terms, such Interest Period;

(B) where "Observation Shift" is specified as the Observation Method in the relevant Final Terms, the Observation Period relating to such Interest Period;

"**Business Day**" means, (i) where "SONIA" is specified as the Reference Rate, any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London; (ii) where "SOFR" is specified as the Reference Rate, any day which is a U.S. Government Securities Business Day and is not a legal holiday in New York and is not a date on which banking institutions in those cities are authorised or required by law or regulation to be closed; and (iii) where "€STR" is specified as the Reference Rate, a TARGET Settlement Day;

"**Compounded Daily Reference Rate**" means, with respect to an Interest Period, the rate of return of a daily compound interest investment in the Specified Currency (with the applicable Reference Rate (as indicated in the relevant Final Terms and further provided for below) as the reference rate for the calculation of interest) and will be calculated by the Calculation Agent on the relevant Interest Determination Date as follows, and the resulting percentage will be rounded, if necessary, to the Relevant Decimal Place:

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{r_{i-pBD} \text{ x } n_i}{D}\right) - 1\right] \text{x } \frac{D}{d}$$

"**D**" is the number specified in the relevant Final Terms;

"**d**" is, in relation to any Applicable Period, the number of calendar days in such Applicable Period;

"**d_o**" is, in relation to any Applicable Period, the number of Business Days in such Applicable Period;

"**€STR**" means, in respect of any Business Day, a reference rate equal to the daily euro short-term rate for such euro Business Day as provided by the European Central Bank, as administrator of such rate (or any successor administrator of such rate), on the website of the European Central Bank as at the date of this Base Prospectus at http://www.ecb.europa.eu, or any successor source officially designated by the European Central Bank (or successor administrator) (the "**ECB's Website**") in each case, on or before 9:00 a.m., (Central European Time) on the Business Day immediately following such Business Day;

"**i**" is, in relation to any Applicable Period, a series of whole numbers from one to d_o, each representing the relevant Business Day in chronological order from, and including, the first Business Day in such Applicable Period;

"**Lock-out Period**" means the period from, and including, the day following the Interest Determination Date to, but excluding, the corresponding Interest Payment Date;

"**n_i**", for any Business Day "i" in the relevant Applicable Period, means the number of calendar days from and including such Business Day "i" up to but excluding the following Business Day;

"**New York Federal Reserve's Website**" means the website of the Federal Reserve Bank of New York as at the date of this Offering Circular at http://www.newyorkfed.org, any successor website of the Federal Reserve Bank of New York (or a successor administrator of SOFR) or any successor source;

"**Observation Period**" means, in respect of the relevant Interest Period, the period from and including the date falling "p" Business Days prior to the first day of such Interest Period (and the first Interest Period shall begin on and include the Interest Commencement Date) and ending on, but excluding, the date which is "p" Business Days prior to the Interest Payment Date for such Interest Period (or the date falling "p" Business Days prior to such earlier date, if any, on which the Notes become due and payable);

"**p**" means, for any Interest Period:

(A) where "Lag" or "Observation Shift" is specified as the Observation Method in the relevant Final Terms, the number of Business Days included in the Observation Look-back Period specified in the relevant Final Terms (or, if no such number is specified five Business Days); and

(C) where "Lock-out" is specified as the Observation Method in the relevant Final Terms, zero;

"**r**" means:

(A) where in the relevant Final Terms "SONIA" is specified as the Reference Rate and either "Lag" or "Observation Shift" is specified as the Observation Method, in respect of any Business Day, the SONIA rate in respect of such Business Day;

(B) where in the relevant Final Terms "SOFR" is specified as the Reference Rate and either "Lag" or "Observation Shift" is specified as the Observation Method, in respect of any Business Day, the SOFR in respect of such Business Day;

(C) where in the relevant Final Terms "€STR" is specified as the Reference Rate and either "Lag" or "Observation Shift" is specified as the Observation Method, in respect of any Business Day, the €STR in respect of such Business Day;

(D) where in the relevant Final Terms "SONIA" is specified as the Reference Rate and "Lock-out" is specified as the Observation Method:

i. in respect of any Business Day "i" that is a Reference Day, the SONIA rate in respect of the Business Day immediately preceding such Reference Day, and

ii. in respect of any Business Day "i" that is not a Reference Day (being a Business Day in the Lock-out Period), the SONIA rate in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the relevant Interest Determination Date);

(E) where in the relevant Final Terms "SOFR" is specified as the Reference Rate and "Lock-out" is specified as the Observation Method:

i. in respect of any Business Day "i" that is a Reference Day, the SOFR in respect of the Business Day immediately preceding such Reference Day, and

ii. in respect of any Business Day "i" that is not a Reference Day (being a Business Day in the Lock-out Period), the SOFR in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the relevant Interest Determination Date);

(F) where in the relevant Final Terms "€STR" is specified as the Reference Rate and "Lock-out" is specified as the Observation Method:

i. in respect of any Business Day "i" that is a Reference Day, the €STR in respect of the Business Day immediately preceding such Reference Day, and

ii. in respect of any Business Day "i" that is not a Reference Day (being a Business Day in the Lock-out Period), the €STR in respect of the Business Day immediately preceding the last Reference Day of the relevant Interest Period (such last Reference Day coinciding with the Interest Determination Date);

"**Reference Day**" means each Business Day in the relevant Interest Period, other than any Business Day in the Lock-out Period;

"**Relevant Decimal Place**" shall be the number of decimal places specified in the applicable Final Terms and will be rounded up or down, if necessary (with half of the highest decimal place being rounded upwards);

"$\mathbf{r_{i\text{-}pBD}}$" means, in relation to any Applicable Period, the applicable Reference Rate as set out in the definition of "r" above for, (i) where "Lag" is specified as the Observation Method in the relevant Final Terms, the Business Day (being a Business Day falling in the relevant Observation Period) falling "p" Business Days prior to the relevant Business Day "i" or, (ii) otherwise, the relevant Business Day "i";

"**SOFR**" means, in respect of any Business Day, a reference rate equal to the daily Secured Overnight Financing Rate as provided by the Federal Reserve Bank of New York, as the administrator of such rate (or any successor administrator of such rate) on the New York Federal Reserve's Website (or any successor source), in each case on or about the SOFR Determination Time on the Business Day immediately following such Business Day;

"**SOFR Determination Time**" means 3:00 p.m. (New York time);

"**SONIA**" means, in respect of any Business Day, a reference rate equal to the daily Sterling Overnight Index Average rate for such Business Day as provided by the administrator of SONIA to authorised distributors and as then published on the Relevant Screen Page or, if the Relevant Screen Page is unavailable, as otherwise published by such authorised distributors in each case on the Business Day immediately following such Business Day;

"**U.S. Government Securities Business Day**" means any day except for a Saturday, Sunday or a day on which the Securities Industry and Financial Markets Association (or any successor thereto) recommends that the fixed income departments of its members be closed for the entire day for purposes of trading in U.S. government securities; and

"**Weighted Average Reference Rate**" means:

(A) where "Lag" is specified as the Observation Method in the relevant Final Terms, the arithmetic mean of the Reference Rate in effect for each calendar day during the relevant Observation Period, calculated by multiplying each relevant Reference Rate by the number of calendar days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Observation Period. For these purposes the Reference Rate in effect for any calendar day which is not a Business Day shall be deemed to be the Reference Rate in effect for the Business Day immediately preceding such calendar day; and

(B) where "Lock-out" is specified as the Observation Method in the relevant Final Terms, the arithmetic mean of the Reference Rate in effect for each calendar day during the relevant Interest Period, calculated by multiplying each relevant Reference Rate by the number of calendar days such rate is in effect, determining the sum of such products and dividing such sum by the number of calendar days in the relevant Interest Period, provided however that for any calendar day of such Interest Period falling in the Lock-out Period, the relevant Reference Rate for each day during that Lock-out Period will be deemed to be the Reference Rate in effect for the Reference Day immediately preceding the first day of such Lock-out Period. For these purposes the Reference Rate in effect for any calendar day which is not a Business Day shall, subject to the proviso above, be deemed to be the Reference Rate in effect for the Business Day immediately preceding such calendar day.

(e) ***Index Determination***: If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined and Index Determination is specified in the relevant Final Terms as being applicable, the Rate of Interest for each Interest Period will be the compounded daily reference rate for the relevant Interest Period, calculated in accordance with the following formula:

$$\frac{(Compounded\ Index\ End}{Compounded\ Index\ Start} - 1)\ X\ \frac{Numerator}{d}$$

and rounded to the Relevant Decimal Place, plus or minus the Margin (if any), all as determined and calculated by the Calculation Agent, where:

"**Compounded Index**" shall mean either the SONIA Compounded Index or the SOFR Compounded Index, as specified in the relevant Final Terms;

"**d**" is the number of calendar days from (and including) the day on which the relevant Compounded Index Start is determined to (but excluding) the day on which the relevant Compounded Index End is determined;

"**End**" means the relevant Compounded Index value on the day falling the Relevant Number of Index Days prior to the Interest Payment Date for such Interest Period, or such other date on which the relevant payment of interest falls due (but which by its definition or the operation of the relevant provisions is excluded from such Interest Period);

"**Index Days**" means, in the case of the SONIA Compounded Index, London Banking Days, and, in the case of the SOFR Compounded Index, U.S. Government Securities Business Days;

"**London Banking Day**" means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

"**Numerator**" means, in the case of the SONIA Compounded Index, 365 and, in the case of the SOFR Compounded Index, 360;

"**Relevant Decimal Place**" shall, unless otherwise specified in the Final Terms, be the fifth decimal place in the case of the SONIA Compounded Index and the seventh decimal place in the case of the SOFR Compounded Index, in each case rounded up or down, if necessary (with 0.000005 or, as the case may be, 0.00000005 being rounded upwards); and

"**Relevant Number**" is as specified in the applicable Final Terms, but, unless otherwise specified shall be five.

"**SONIA Compounded Index**" means the Compounded Daily SONIA rate as published at 10:00 (London time) by the Bank of England (or a successor administrator of SONIA) on the Bank of England's Interactive Statistical Database, or any successor source;

"**SOFR Compounded Index**" means the Compounded Daily SOFR rate as published at 15:00 (New York time) by Federal Reserve Bank of New York (or a successor administrator of SOFR) on the website of the Federal Reserve Bank of New York, or any successor source; and

"**Start**" means the relevant Compounded Index value on the day falling the Relevant Number of Index Days prior to the first day of the relevant Interest Period.

Provided that a Benchmark Event has not occurred in respect of SONIA Compounded Index or a Benchmark Transition Event and its related Benchmark Replacement Date has not occurred in respect of the SOFR Compounded Index, if, with respect to any Interest Period, the relevant rate is not published for the relevant Compounded Index either on the relevant Start or End date, then the Calculation Agent shall calculate the rate of interest for that Interest Period in accordance with Condition 7(c) (*Screen Rate Determination for Floating Rate Notes not referencing SOFR, SONIA or €STR*) as if Index Determination was not specified in the relevant Final Terms. For these purposes, (i) the Reference Rate shall be deemed to be SONIA in the case of SONIA Compounded Index and SOFR in the case of Compounded SOFR Index, (ii) the Calculation Method shall be deemed to be Compounded Daily, (iii) the Observation Method shall be deemed to be Observation Shift, (iv) the Observation Look-back Period shall be deemed to be the Relevant Number and (v) D shall be deemed to be the Numerator. If a Benchmark Event has occurred in respect of SONIA, the provisions of Condition 7(i) (*Benchmark Replacement – Independent Advisor*) shall apply *mutatis mutandis* in respect of this Condition 7(e) or if a Benchmark Transition Event and its related Benchmark Replacement Date have occurred in respect of SOFR, the provision of Condition 7(j) (*Benchmark Replacement - SOFR*) shall apply mutatis mutandis in respect of this Condition 7(e), as applicable.

(f) ***ISDA Determination***: If ISDA Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, the Rate of Interest applicable to the Notes for each Interest Period will be the sum of the Margin and the relevant ISDA Rate where "**ISDA Rate**" in relation to any Interest Period means a rate equal to the Floating Rate (as defined in the ISDA Definitions) that would be determined by the Calculation Agent under an interest rate swap transaction if the Calculation Agent were acting as Calculation Agent for that interest rate swap transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(i)

(A) the Floating Rate Option (as defined in the ISDA Definitions) is as specified in the relevant Final Terms;

(B) the Designated Maturity (as defined in the ISDA Definitions), if applicable, is a period specified in the relevant Final Terms;

(C) the relevant Reset Date (as defined in the ISDA Definitions), unless otherwise specified in the relevant Final Terms, has the meaning given to it in the ISDA Definitions; and

(D) if Linear Interpolation is specified as applicable in respect of an Interest Period in the relevant Final Terms, the rate for such Interest Period shall be calculated by the Calculation Agent by straight-line linear interpolation by reference to two rates based on the relevant Floating Rate Option, where:

(1) one rate shall be determined as if the Designated Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Period; and

(2) the other rate shall be determined as if the Designated Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Period,

provided, however, that if there is no rate available for a period of time next shorter than the length of the relevant Interest Period or, as the case may be, next longer than the length of the relevant Interest Period, then the Calculation Agent shall calculate the Rate of Interest at such time and by reference to such sources as the Bank, in consultation with an Independent Adviser appointed by the Bank, and such Independent Adviser acting in good faith and in a commercially reasonable manner, determines appropriate;

(E) if the specified Floating Rate Option is an Overnight Floating Rate Option (as defined in the ISDA Definitions), Compounding is specified to be applicable in the relevant Final Terms and:

(1) Compounding with Lookback is specified as the Compounding Method in the relevant Final Terms, Lookback is the number of Applicable Business Days (as defined in the ISDA Definitions) specified in the relevant Final Terms;

(2) Compounding with Observation Period Shift is specified as the Compounding Method in the relevant Final Terms, (a) Observation Period Shift is the number of Observation Period Shift Business Days (as defined in the ISDA Definitions) specified in the relevant Final Terms, and (b) Observation Period Shift Additional Business Days (as defined in the ISDA Definitions), if applicable, are the days specified in the relevant Final Terms; or

(3) Compounding with Lockout is specified as the Compounding Method in the relevant Final Terms, (a) Lockout is the number of Lockout Period Business Days (as defined in the ISDA Definitions) specified in the

relevant Final Terms, and (b) Lockout Period Business Days, if applicable, are the days specified in the relevant Final Terms;

(F) if the specified Floating Rate Option is an Overnight Floating Rate Option (as defined in the ISDA Definitions), Averaging is specified to be applicable in the relevant Final Terms and:

(1) Averaging with Lookback is specified as the Averaging Method in the relevant Final Terms, Lookback is the number of Applicable Business Days (as defined in the ISDA Definitions) as specified in relevant Final Terms;

(2) Averaging with Observation Period Shift is specified as the Averaging Method in the relevant Final Terms, (a) Observation Period Shift is the number of Observation Period Shift Business Days (as defined in the ISDA Definitions) specified in the relevant Final Terms, and (b) Observation Period Shift Additional Business Days (as defined in the ISDA Definitions), if applicable, are the days specified in the relevant Final Terms; or

(3) Averaging with Lockout is specified as the Averaging Method in the relevant Final Terms, (a) Lockout is the number of Lockout Period Business Days (as defined in the ISDA Definitions) specified in the relevant Final Terms, and (b) Lockout Period Business Days, if applicable, are the days specified in the relevant Final Terms; and

(G) if the specified Floating Rate Option is an Index Floating Rate Option (as defined in the ISDA Definitions) and Index Provisions are specified to be applicable in the relevant Final Terms, the Compounded Index Method with Observation Period Shift (as defined in the ISDA Definitions) shall be applicable and, (a) Observation Period Shift is the number of Observation Period Shift Business Days (as defined in the ISDA Definitions) specified in the relevant Final Terms and (b) Observation Period Shift Additional Business Days, if applicable, are the days specified in the relevant Final Terms;

(ii) references in the ISDA definitions to:

(A) "**Confirmation**" shall be references to the relevant Final Terms;

(B) "**Calculation Period**" shall be references to the relevant Interest Period;

(C) "**Termination Date**" shall be references to the final Interest Period End Date;

(D) "**Effective Date**" shall be references to the Interest Commencement Date; and

(E) "**Administrator/Benchmark Event**" in the 2021 ISDA Definitions shall be disapplied; and

(iii) if the Temporary Non-Publication Fallback in respect of any specified Floating Rate Option is specified to be "Temporary Non-Publication – Alternative Rate" in the Floating Rate Matrix of the 2021 ISDA Definitions, the reference to "Calculation Agent Alternative Rate Determination" in the definition of "Temporary Non-Publication– Alternative Rate" shall be replaced by "Temporary Non-Publication Fallback – Previous Day's Rate".

(g) ***Maximum or Minimum Rate of Interest***: If any Maximum Rate of Interest or Minimum Rate of Interest is specified in the relevant Final Terms, then the Rate of Interest shall in no event be greater than the maximum or be less than the minimum so specified.

(h) ***Calculation of Interest Amount***: The Calculation Agent will, as soon as practicable after the time at which the Rate of Interest is to be determined in relation to each Interest Period, calculate the Interest Amount payable in respect of each Note for such Interest Period. The Interest Amount will be calculated by applying the Rate of Interest for such Interest Period to the Calculation Amount

and multiplying the product by the relevant Day Count Fraction, rounding the resulting figure to the nearest sub-unit of the Specified Currency (half a sub-unit being rounded upwards) and multiplying such rounded figure by a fraction equal to the Specified Denomination of the relevant Note divided by the Calculation Amount. For this purpose, a "**sub-unit**" means, in the case of any currency other than euro, the lowest amount of such currency that is available as legal tender in the country of such currency and, in the case of euro, means one cent.

(i) ***Benchmark Replacement – Independent Advisor****:* Other than in the case of a U.S. dollar-denominated Floating Rate Note for which the Reference Rate is specified in the relevant Final Terms as being "SOFR" and notwithstanding the provisions above in this Condition 7, if the Bank (in consultation, to the extent practicable, with the Calculation Agent) determines that a Benchmark Event has occurred in relation to a Reference Rate or considers that there may be a Successor Rate, in either case, when any Rate of Interest (or the relevant component part thereof) remains to be determined by reference to such Reference Rate, then the following provisions shall apply:

(i) the Bank shall use reasonable endeavours to appoint an Independent Adviser to determine a Successor Rate or, alternatively, if the Independent Adviser determines that there is no Successor Rate, an Alternative Reference Rate no later than 3 Business Days prior to the Interest Determination Date relating to the next succeeding Interest Period (the "**IA Determination Cut-off Date**") for purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 7(h));

(ii) if the Bank is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine a Successor Rate or an Alternative Reference Rate prior to the IA Determination Cut-off Date in accordance with sub-paragraph (i) above, then the Bank (in consultation, to the extent practicable, with the Calculation Agent and acting in good faith) may determine a Successor Rate or, if the Bank determines that there is no Successor Rate, an Alternative Reference Rate for purposes of determining the Rate of Interest applicable to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 7(h)); provided, however, that if this sub-paragraph (ii) applies and the Bank is unable or unwilling to determine a Successor Rate or an Alternative Reference Rate prior to the Interest Determination Date relating to the next succeeding Interest Period (as applicable) in accordance with this sub-paragraph (ii), the Rate of Interest applicable to such Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of a preceding Interest Period (which may be the Initial Rate of Interest) (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period for which the Rate of Interest was determined, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period);

(iii) if a Successor Rate or an Alternative Reference Rate is determined in accordance with the preceding provisions, such Successor Rate or Alternative Reference Rate (as applicable) shall be the Reference Rate for all future Interest Periods (subject to the subsequent operation of this Condition 7(h));

(iv) if the Independent Adviser (in consultation with the Bank) or (if the Bank is unable to appoint an Independent Adviser, or the Independent Adviser appointed by it fails to determine whether an Adjustment Spread should be applied) the Bank determines that an Adjustment Spread should be applied to the relevant Successor Rate or the relevant Alternative Reference Rate (as applicable) and determines the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Adjustment Spread shall be applied to such Successor Rate or Alternative Reference Rate (as applicable). If the Independent Adviser or the Bank (as applicable) is unable to determine, prior to the Interest Determination Date relating to the next succeeding Interest Period, the quantum of, or a formula or methodology for determining, such Adjustment Spread, then such Successor Rate or Alternative Reference Rate (as applicable) will apply without an Adjustment Spread;

(v) if the Independent Adviser or the Bank (as the case may be) determines a Successor Rate or an Alternative Reference Rate or, in each case, any Adjustment Spread, in accordance with the above provisions, the Independent Adviser or the Bank may also, following consultation, to the extent practicable, with the Calculation Agent, specify changes to the Day Count Fraction, Relevant Screen Page, Business Day Convention, Business Days, Interest Determination Date, Interest Payment Dates and/or the definition of Reference Rate or Adjustment Spread applicable to the Notes (and in each case, related provisions and definitions), and the method for determining the fallback rate in relation to the Notes, in order to follow market practice in relation to such Successor Rate or Alternative Reference Rate (as applicable), which changes shall apply to the Notes for all future Interest Periods (subject to the subsequent operation of this Condition 7(h)). An Independent Adviser appointed pursuant to this Condition 7(h) shall act in good faith and (in the absence of bad faith, gross negligence and wilful misconduct) shall have no liability whatsoever to the Bank, the Agent, the Calculation Agent or Noteholders for any determination made by it or for any advice given to the Bank in connection with any determination made by the Bank pursuant to this Condition 7(h). No Noteholder consent shall be required in connection with effecting the Successor Rate or the Alternative Reference Rate (as applicable), any Adjustment Spread or such other changes, including for the execution of any documents, amendments or other steps by the Bank or Agent (if required); and

(vi) the Bank shall promptly following the determination of any Successor Rate, Alternative Reference Rate or Adjustment Spread give notice thereof and of any changes pursuant to sub-paragraph (v) above to the Agent and the Noteholders. No later than notifying the Agent of the same, the Bank shall deliver to the Agent a certificate signed by two authorised signatories of the Bank confirming (I) that a Benchmark Event has occurred or that there is a Successor Rate, (II) the Successor Rate or Alternative Reference Rate (as applicable), (III) where applicable, any Adjustment Spread and (IV) where applicable, the terms of any changes pursuant to sub-paragraph (v) above.

(j) ***Benchmark Replacement – SOFR***

(i) If the Bank or its designee determines on or prior to the relevant Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to the then-current Benchmark, the Benchmark Replacement will replace the then-current Benchmark for all purposes relating to the Notes in respect of all determinations on such date and for all determinations on all subsequent dates. In connection with the implementation of a Benchmark Replacement, the Bank will have the right to make Benchmark Replacement Conforming Changes from time to time, without any requirement for the consent or approval of the Noteholders.

Any determination, decision or election that may be made by the Bank pursuant to this section, including any determination with respect to a tenor, rate or adjustment or of the occurrence or non-occurrence of an event, circumstance or date and any decision to take or refrain from taking any action or any selection:

(i) will be conclusive and binding absent manifest error;

(ii) will be made in the sole discretion of the Bank; and

(iii) notwithstanding anything to the contrary in the documentation relating to the Notes, shall become effective without consent from the holders of the Notes or any other party.

Where:

"**Benchmark**" means, initially, SOFR, as such term is defined in Condition 7(d); provided that if the Bank determines on or prior to the Reference Time that a Benchmark Transition Event and its related Benchmark Replacement Date have occurred with respect to SOFR or the then-current Benchmark, then "Benchmark" shall mean the applicable Benchmark Replacement.

"**Benchmark Replacement**" means the first alternative set forth in the order below that can be determined by the Bank or its designee as of the Benchmark Replacement Date:

(i) the sum of: (A) the alternate rate of interest that has been selected or recommended by the Relevant Governmental Body as the replacement for the then-current Benchmark and (B) the Benchmark Replacement Adjustment;

(ii) the sum of: (A) the ISDA Fallback Rate and (B) the Benchmark Replacement Adjustment; or

(iii) the sum of: (A) the alternate rate of interest that has been selected by the Bank as the replacement for the then-current Benchmark giving due consideration to any industry-accepted rate of interest as a replacement for the then-current Benchmark for U.S. dollar-denominated floating rate notes at such time and (B) the Benchmark Replacement Adjustment;

"**Benchmark Replacement Adjustment**" means the first alternative set forth in the order below that can be determined by the Bank or its designee as of the Benchmark Replacement Date:

(i) the spread adjustment, or method for calculating or determining such spread adjustment, (which may be a positive or negative value or zero) that has been selected or recommended by the Relevant Governmental Body for the applicable Unadjusted Benchmark Replacement;

(ii) if the applicable Unadjusted Benchmark Replacement is equivalent to the ISDA Fallback Rate, the ISDA Fallback Adjustment; or

(iii) the spread adjustment (which may be a positive or negative value or zero) that has been selected by the Bank giving due consideration to any industry-accepted spread adjustment, or method for calculating or determining such spread adjustment, for the replacement of the then-current Benchmark with the applicable Unadjusted Benchmark Replacement for U.S. dollar-denominated floating rate notes at such time;

"**Benchmark Replacement Conforming Changes**" means, with respect to any Benchmark Replacement, any technical, administrative or operational changes (including changes to the timing and frequency of determining rates and making payments of interest, rounding of amounts or tenors, and other administrative matters) that the Bank decides may be appropriate to reflect the adoption of such Benchmark Replacement in a manner substantially consistent with market practice (or, if the Bank decides that adoption of any portion of such market practice is not administratively feasible or if the Bank determines that no market practice for use of the Benchmark Replacement exists, in such other manner as the Bank determines is reasonably necessary);

"**Benchmark Replacement Date**" means the earliest to occur of the following events with respect to the then-current Benchmark:

(i) in the case of clause (i) or (ii) of the definition of "Benchmark Transition Event," the later of (a) the date of the public statement or publication of information referenced therein and (b) the date on which the administrator of the Benchmark permanently or indefinitely ceases to provide the Benchmark (or such component); or

(ii) in the case of clause (iii) of the definition of "Benchmark Transition Event," the date of the public statement or publication of information referenced therein.

For the avoidance of doubt, if the event that gives rise to the Benchmark Replacement Date occurs on the same day as, but earlier than, the Reference Time in respect of any determination, the Benchmark Replacement Date will be deemed to have occurred prior to the Reference Time for such determination;

"**Benchmark Transition Event**" means the occurrence of one or more of the following events with respect to the then-current Benchmark:

(i) a public statement or publication of information by or on behalf of the administrator of the Benchmark (or such component) announcing that such administrator has ceased or will cease to provide the Benchmark (or such component), permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(ii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark (or such component), the central bank for the currency of the Benchmark (or such component), an insolvency official with jurisdiction over the administrator for the Benchmark (or such component), a resolution authority with jurisdiction over the administrator for the Benchmark (or such component) or a court or an entity with similar insolvency or resolution authority over the administrator for the Benchmark, which states that the administrator of the Benchmark (or such component) has ceased or will cease to provide the Benchmark (or such component) permanently or indefinitely, provided that, at the time of such statement or publication, there is no successor administrator that will continue to provide the Benchmark (or such component); or

(iii) a public statement or publication of information by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative;

"**ISDA Definitions**" means the 2006 ISDA Definitions published by the International Swaps and Derivatives Association, Inc. or any successor thereto, as amended or supplemented from time to time, or any successor definitional booklet for interest rate derivatives published from time to time;

"**ISDA Fallback Adjustment**" means the spread adjustment (which may be a positive or negative value or zero) that would apply for derivatives transactions referencing the ISDA Definitions to be determined upon the occurrence of an index cessation event with respect to the Benchmark;

"**ISDA Fallback Rate**" means the rate that would apply for derivatives transactions referencing the ISDA Definitions to be effective upon the occurrence of an index cessation date with respect to the Benchmark for the applicable tenor excluding the applicable ISDA Fallback Adjustment;

"**Reference Time**" with respect to any determination of the Benchmark means (i) if the Benchmark is SOFR, the SOFR Determination Time, and (ii) if the Benchmark is not SOFR, the time determined by the Bank after giving effect to the Benchmark Replacement Conforming Changes;

"**Relevant Governmental Body**" means the Federal Reserve Board and/or the Federal Reserve Bank of New York, or a committee officially endorsed or convened by the Federal Reserve Board and/or the Federal Reserve Bank of New York or any successor thereto; and

"**Unadjusted Benchmark Replacement**" means the Benchmark Replacement excluding the Benchmark Replacement Adjustment.

(ii) Any Benchmark Replacement, Benchmark Replacement Adjustment and the specific terms of any Benchmark Replacement Conforming Changes, determined under Condition 7(j)(i) above will be notified promptly by the Bank to the Issuing and Principal Paying Agent, the Calculation Agent, the Paying Agents and, in accordance with Condition 18 (*Notices*), the Noteholders. Such notice shall be irrevocable and shall specify the effective date on which such changes take effect.

No later than notifying the Issuing and Principal Paying Agent of the same, the Bank shall deliver to the Issuing and Principal Paying Agent a certificate signed by two authorised signatories of the Bank:

(A) confirming (x) that a Benchmark Transition Event has occurred, (y) the relevant Benchmark Replacement and, (z) where applicable, any Benchmark Replacement Adjustment and/or the specific terms of any relevant Benchmark Replacement Conforming Changes, in each case as determined in accordance with the provisions of this Condition 7(j); and

(B) certifying that the relevant Benchmark Replacement Conforming Changes are necessary to ensure the proper operation of such Benchmark Replacement and/or Benchmark Replacement Adjustment.

In connection with the foregoing, the Calculation Agent will be entitled to conclusively rely on any determinations made by the Bank and will have no liability for such actions taken at the direction of the Bank. Neither of the Calculation Agent nor the Issuing and Principal Paying Agent shall have any liability for any determination made by or on behalf of the Bank in connection with a Benchmark Transition Event or a Benchmark Replacement.

(iii) If the Rate of Interest cannot be determined in accordance with the foregoing provisions of this Condition 7(j), the Rate of Interest shall be (A) that determined as at the last preceding Interest Determination Date (though substituting, where a different Margin is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin relating to the relevant Interest Period, in place of the Margin relating to that last preceding Interest Period) or (B) if there is no such preceding Interest Determination Date, the initial Rate of Interest which would have been applicable to the Notes for the first Interest Period had the Notes been in issue for a period equal in duration to the scheduled first Interest Period but ending on (and excluding) the Interest Commencement Date (but applying the Margin applicable to the first Interest Period).

(k) ***Publication***: The Calculation Agent will cause each Rate of Interest and Interest Amount determined by it, together with the relevant Interest Payment Date, and any other amount(s) required to be determined by it together with any relevant payment date(s) to be notified to the Bank, the Paying Agents and each stock exchange (if any) on which the Notes are then listed as soon as practicable after such determination but (in the case of each Rate of Interest, Interest Amount and Interest Payment Date) in any event not later than the first day of the relevant Interest Period. Notice thereof shall also promptly be given to the Noteholders. The Calculation Agent will be entitled to recalculate any Interest Amount (on the basis of the foregoing provisions) without notice in the event of an extension or shortening of the relevant Interest Period. If the Calculation Amount is less than the minimum Specified Denomination the Calculation Agent shall not be obliged to publish each Interest Amount but instead may publish only the Calculation Amount and the Interest Amount in respect of a Note having the minimum Specified Denomination.

(l) ***Notifications etc***: All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 7(l) by the Calculation Agent will (in the absence of manifest error) be binding on the Bank, the Paying Agents, the Noteholders and the Couponholders and no liability to any such Person will attach to the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

8. **Zero Coupon Note Provisions**

(a) **Application**: This Condition 8 is applicable to the Notes only if the Zero Coupon Note Provisions are specified in the relevant Final Terms as being applicable.

(b) ***Late payment on Zero Coupon Notes***: If the Redemption Amount payable in respect of any Zero Coupon Note is improperly withheld or refused, the Redemption Amount shall thereafter be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) whichever is the earlier of: (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder; and (ii) the day which is seven days after the Issuing and Principal Paying Agent has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

9. **Redemption and Purchase**

(a) ***Scheduled redemption***: Unless previously redeemed, or purchased and cancelled, the Notes will be redeemed at their Final Redemption Amount on the Maturity Date, subject as provided in Condition 10 (*Payments*).

(b) ***Redemption for tax reasons***: The Notes may be redeemed (subject, in the case of Subordinated Notes, to the prior approval of the Regulator where required) at the option of the Bank in whole, but not in part:

(i) at any time (if the Floating Rate Note Provisions are specified in the relevant Final Terms as not being applicable); or

(ii) on any Interest Payment Date (if the Floating Rate Note Provisions are specified in the relevant Final Terms as being applicable);

on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their Early Redemption Amount, together with interest accrued (if any) to the date fixed for redemption, if: (1) the Bank has or will become obliged to pay additional amounts as provided or referred to in Condition 11 (*Taxation*) as a result of any change in, or amendment to, the laws (or any regulations, rulings or other administrative pronouncements promulgated thereunder) of the UAE or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, regulations, rulings or other administrative pronouncements, which change or amendment becomes effective on or after the date of issue of the first Tranche of the Notes or any other date specified in the Final Terms; and (2) such obligation cannot be avoided by the Bank taking reasonable measures available to it,

provided, **however**, **that** no such notice of redemption shall be given earlier than:

(1) where the Notes may be redeemed at any time, 90 days prior to the earliest date on which the Bank would be obliged to pay such additional amounts if a payment in respect of the Notes were then due; or

(2) where the Notes may be redeemed only on an Interest Payment Date, 60 days prior to the Interest Payment Date occurring immediately before the earliest date on which the Bank would be obliged to pay such additional amounts if a payment in respect of the Notes were then due.

Prior to the publication of any notice of redemption pursuant to this Condition 9(b), the Bank shall deliver or procure that there is delivered to the Issuing and Principal Paying Agent a certificate signed by a duly authorised officer of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Bank so to redeem have occurred and an opinion of independent legal advisers of recognised standing to the effect that the Bank has or will become obliged to pay such additional amounts as a result of such change or amendment. Upon the expiry of any such notice as is referred to in this Condition 9(b), the Bank shall be bound to redeem the Notes in accordance with this Condition 9(b).

(c) ***Redemption at the option of the Bank (Issuer Call)***: If the Call Option is specified in the relevant Final Terms as being applicable, the Notes may be redeemed at the option of the Bank in whole or, if so specified in the relevant Final Terms, in part on any Optional Redemption Date (Call) at the relevant Optional Redemption Amount (Call) on the Bank's giving: (i) not less than 15 nor more than 30 days' notice to the Noteholders; and (ii) not less than 15 days before the giving of

notice to the Noteholders, notice to the Agent (which notices shall be irrevocable and shall oblige the Bank to redeem the Notes or, as the case may be, the Notes specified in such notice on the relevant Optional Redemption Date (Call) at the Optional Redemption Amount (Call) plus accrued interest (if any) to such date).

(d) ***Partial redemption***: If Notes are to be redeemed in part only on any date in accordance with Condition 9(c) (*Redemption at the option of the Bank (Issuer Call)*), the Notes to be redeemed shall be selected by the drawing of lots in such place as the Issuing and Principal Paying Agent approves and in such manner as the Issuing and Principal Paying Agent considers appropriate, subject to compliance with applicable law and the rules of each stock exchange on which the Notes are then listed, and the notice to Noteholders referred to in Condition 9(c) (*Redemption at the option of the Bank (Issuer Call)*) shall specify the serial numbers of the Notes so to be redeemed. If any Maximum Redemption Amount or Minimum Redemption Amount is specified in the relevant Final Terms, then the Optional Redemption Amount (Call) shall in no event be greater than the maximum or be less than the minimum so specified.

(e) This Condition 9(e) is applicable to Senior Notes only.

Redemption at the option of Noteholders (Investor Put)**:** If the Put Option is specified in the relevant Final Terms as being applicable, the Bank shall, at the option of the Holder of any Note redeem such Note on the Optional Redemption Date (Put) specified in the relevant Put Option Notice at the relevant Optional Redemption Amount (Put) together with interest (if any) accrued to such date. In order to exercise the option contained in this Condition 9(e), the Holder of a Note must, not less than 15 nor more than 30 days before the relevant Optional Redemption Date (Put), deposit with any Agent such Note together with all unmatured Coupons relating thereto and a duly completed Put Option Notice in the form obtainable from any Agent. The Agent with which a Note is so deposited shall deliver a duly completed Put Option Receipt to the depositing Holder. No Note, once deposited with a duly completed Put Option Notice in accordance with this Condition 9(e), may be withdrawn; **provided**, **however**, **that** if, prior to the relevant Optional Redemption Date (Put), any such Note becomes immediately due and payable or, upon due presentation of any such Note on the relevant Optional Redemption Date (Put), payment of the redemption moneys is improperly withheld or refused, the relevant Agent shall mail notification thereof to the depositing Noteholder at such address as may have been given by such Noteholder in the relevant Put Option Notice and shall hold such Note at its Specified Office for collection by the depositing Noteholder against surrender of the relevant Put Option Receipt. For so long as any outstanding Note is held by an Agent in accordance with this Condition 9(e), the depositor of such Note and not such Agent shall be deemed to be the holder of the Note for all purposes.

(f) This Condition 9(f) is applicable to Subordinated Notes only.

Regulatory Redemption Event: The Bank may, at any time during the Regulatory Redemption Event Period, redeem the Notes in whole, but not in part, at its option on any Interest Payment Date following the occurrence of a Regulatory Redemption Event at a redemption price equal to the relevant Make Whole Redemption Amount of the Notes on giving not less than 15 nor more than 30 days' notice (which notice shall be irrevocable and shall specify the date fixed for redemption) to the Noteholders. Prior to the giving of any notice of redemption pursuant to this Condition 9(f), the Bank shall deliver to the Issuing and Principal Paying Agent a certificate signed by two Directors of the Bank stating that the Bank is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right to redeem have occurred.

(g) ***No other redemption***: The Bank shall not be entitled to redeem the Notes otherwise than as provided in paragraphs (a) to (f) above.

(h) ***Early redemption of Zero Coupon Notes***: Unless otherwise specified in the relevant Final Terms, the Redemption Amount payable on redemption of a Zero Coupon Note at any time before the Maturity Date shall be an amount equal to the sum of:

(i) the Reference Price; and

(ii) the product of the Accrual Yield (compounded annually) being applied to the Reference Price from (and including) the Issue Date to (but excluding) the date fixed for redemption or (as the case may be) the date upon which the Note becomes due and payable.

Where such calculation is to be made for a period which is not a whole number of years, the calculation in respect of the period of less than a full year shall be made on the basis of such Day Count Fraction as may be specified in the Final Terms for the purposes of this Condition 9(h) or, if none is so specified, a Day Count Fraction of 30E/360.

(i) ***Purchase***: The Bank or any of its Subsidiaries may (subject, in the case of Subordinated Notes, to the prior approval of the Regulator where required) at any time purchase Notes in the open market or otherwise and at any price, **provided that** all unmatured Coupons are purchased therewith.

(j) ***Treatment of Notes purchased by the Bank or any of its Subsidiaries***: All Notes purchased by the Bank or any of its Subsidiaries may, if the Bank so elects, be cancelled. Any Notes so cancelled may not be reissued or resold. The Notes so purchased, while held by or for the account of the Bank or any of its Subsidiaries, shall not entitle their holder to vote at any meeting of Noteholders of any series and shall not be deemed outstanding for the purpose of calculating a quorum at a Noteholders' meeting of any series or for the purposes of Condition 12 (*Events of Default*) and Condition 16 (*Meetings of Noteholders; Modification and Waiver*).

(k) ***Treatments of Notes redeemed by the Bank or any of its Subsidiaries***: All Notes redeemed by the Bank or any of its Subsidiaries and any unmatured Coupons attached to or surrendered with them shall be cancelled and may not be reissued or resold and the obligations of the Bank in respect of any such Notes shall be discharged.

10. Payments

(a) ***Principal***: Payments of principal shall be made only against presentation and (**provided that** payment is made in full) surrender of Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if so permitted by paragraph (c) below) by cheque drawn in the currency in which the payment is due on, or by transfer to an account denominated in that currency (or, if that currency is euro, any other account to which euro may be credited or transferred and if that currency is RMB, in accordance with Condition 6(f) (*RMB account*)) and maintained by the payee with, a bank in the Principal Financial Centre of that currency (in the case of a sterling cheque, a town clearing branch of a bank in the City of London).

(b) ***Interest***: Payments of interest shall, subject to paragraph (g) below, be made only against presentation and (**provided that** payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States and its possessions (or in New York City if so permitted by paragraph (c) below) in the manner described in paragraph (a) above.

(c) ***Payments in New York City***: Notwithstanding paragraph (a) above, payments of principal or interest may be made at the Specified Office of an Agent in New York City if: (i) the Bank has appointed Agents outside the United States with the reasonable expectation that such Agents will be able to make payment of the full amount of the interest on the Notes in the currency in which the payment is due when due; (ii) payment of the full amount of such interest at the offices of all such Agents is illegal or effectively precluded by exchange controls or other similar restrictions; and (iii) payment is permitted by applicable United States law without involving, in the opinion of the Bank, any adverse tax consequences to the Bank.

(d) ***Payments subject to fiscal laws***: All payments in respect of the Notes are subject in all cases to: (i) any applicable fiscal or other laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*); and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, official interpretations thereof, or any law implementing an intergovernmental approach thereto. No commissions or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) ***Deductions for unmatured Coupons***: If the relevant Final Terms specifies that the Fixed Rate Note Provisions are applicable, and a Note is presented without all unmatured Coupons relating thereto:

(i) if the aggregate amount of the missing Coupons is less than or equal to the amount of principal due for payment, a sum equal to the aggregate amount of the missing Coupons will be deducted from the amount of principal due for payment; **provided**, **however**, **that** if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of such missing Coupons which the gross amount actually available for payment bears to the amount of principal due for payment;

(ii) if the aggregate amount of the missing Coupons is greater than the amount of principal due for payment:

(A) so many of such missing Coupons shall become void (in inverse order of maturity) as will result in the aggregate amount of the remainder of such missing Coupons (the "**Relevant Coupons**") being equal to the amount of principal due for payment; **provided**, **however**, **that** where this sub-paragraph (A) would otherwise require a fraction of a missing Coupon to become void, such missing Coupon shall become void in its entirety; and

(B) a sum equal to the aggregate amount of the Relevant Coupons (or, if less, the amount of principal due for payment) will be deducted from the amount of principal due for payment; **provided**, **however**, **that**, if the gross amount available for payment is less than the amount of principal due for payment, the sum deducted will be that proportion of the aggregate amount of the Relevant Coupons (or, as the case may be, the amount of principal due for payment) which the gross amount actually available for payment bears to the amount of principal due for payment.

Each sum of principal so deducted shall be paid in the manner provided in paragraph (a) above against presentation and (**provided that** payment is made in full) surrender of the relevant missing Coupons.

(f) ***Unmatured Coupons void***: If the relevant Final Terms specifies that this Condition 10(f) is applicable or that the Floating Rate Note Provisions are applicable, on the due date for final redemption of any Note or early redemption of such Note pursuant to Condition 9(b) (*Redemption for tax reasons*), Condition 9(c) (*Redemption at the option of the Bank (Issuer Call)*), Condition 9(e) (*Redemption at the option of Noteholders (Investor Put)*), Condition 9(f) (*Regulatory Redemption Event*)or Condition 12 (*Events of Default*), all unmatured Coupons relating thereto (whether or not still attached) shall become void and no payment will be made in respect thereof.

(g) ***Payments on business days***: If the due date for payment of any amount in respect of any Note or Coupon is not a Payment Business Day in the place of presentation, the Holder shall not be entitled to payment in such place of the amount due until the next succeeding Payment Business Day in such place and shall not be entitled to any further interest or other payment in respect of any such delay.

(h) ***Payments other than in respect of matured Coupons***: Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Agent outside the United States (or in New York City if permitted by paragraph (e) above) and the UAE.

(i) ***Partial payments***: If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.

(j) ***Exchange of Talons***: On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a Coupon Sheet relating to the Notes, the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Issuing and Principal Paying Agent or at the office of the Paying Agent in Luxembourg for a further Coupon Sheet (including, if appropriate, a further Talon but excluding any Coupons in respect of which claims have already become void pursuant to Condition 13 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

11. Taxation

(a) ***Gross up***: All payments of principal and interest in respect of the Notes and the Coupons (if any) by or on behalf of the Bank shall be made free and clear of, and without withholding or deduction for or on account of, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by the UAE or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Bank shall pay such additional amounts as will result in the receipt by the Noteholders and the Couponholders (if relevant) after such withholding or deduction of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable:

(i) where the relevant Noteholder or Couponholder (if relevant) is liable for such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the jurisdiction by which such taxes, duties, assessments or governmental charges are imposed, levied, collected, withheld or assessed other than the mere holding of such Note or Coupon or the receipt of interest or principal in respect thereof;

(ii) if the payment could have been made without such deduction or withholding if the beneficiary of the payment had presented the Note for payment less than 30 days after the Relevant Date except to the extent that the Holder thereof would have been entitled to an additional amount on presenting the same for payment on such thirtieth day;

(iii) with respect to any estate, inheritance, gift, sales, excise, transfer, personal property tax or similar tax, assessment or governmental charge;

(iv) with respect to any payment of principal of or interest on any Note or Coupon to any Holder who is a fiduciary or partnership or any person other than the sole beneficial owner of such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership or the beneficial owner of such payment would not have been entitled to the additional amounts had such beneficiary, settlor, member or beneficial owner been the actual holder of such Note or Coupon;

(v) to, or to a third party on behalf of, a Noteholder who would not be liable or subject to the withholding or deduction by making a declaration of non-residence or other similar claim for exemption to the relevant tax authority; or

(vi) with respect to any combination of any of the foregoing.

(b) ***Taxing jurisdiction***: If the Bank becomes subject at any time to any taxing jurisdiction other than the UAE references in these Conditions to the UAE shall be construed as references to the UAE and/or such other jurisdiction.

12. Events of Default

If, in the case of Senior Notes, any one or more of the following events (each an "**Event of Default**") shall have occurred and be continuing or, in the case of Subordinated Notes, any one or more of the events specified in sub-paragraph (a), (d), (e), (f), (g) or (k) shall have occurred and be continuing:

(a) the Bank fails to pay any principal or interest due in respect of the Notes or any of them and the default continues for a period of seven Business Days in the case of principal and fourteen Business Days in the case of interest;

(b) the Bank is in default in the performance of any of its obligations (other than to make payments in respect of the Notes) contained in the Conditions, and (except in any case where the failure is incapable of remedy when no such continuation or notice as is hereinafter mentioned will be

required) such default shall continue for more than 30 days after written notice requiring such default to be remedied shall have been given to the Bank;

(c) any payment obligation under Indebtedness of the Bank or any Material Subsidiary becomes due and repayable prior to its stated maturity or the Bank or any Material Subsidiary fails to make any payment in respect of any Indebtedness within 30 days of the due date for payment (or within the applicable grace period, if such period is longer than 30 days) or any security given by the Bank or any Material Subsidiary for any Indebtedness becomes enforceable or if default is made by the Bank or any Material Subsidiary in making any payment due under any guarantee and/or indemnity given by it in relation to any obligation of any other person for 30 days (or within the applicable grace period if such period is longer than 30 days (save where such default is being actively contested in good faith by the Bank or any Material Subsidiary)), **provided that** no such event shall constitute an Event of Default unless the Indebtedness or other relative liability either alone or when aggregated with other Indebtedness and/or liabilities relative to all (if any) other events which shall have occurred and be outstanding shall amount to at least U.S.$20,000,000 (or its equivalent in any other currency);

(d) the Bank or any Material Subsidiary takes any corporate action or other steps are taken or legal proceedings are started for its winding-up, dissolution, administration or re-organisation (whether by way of voluntary arrangement, scheme of arrangement or otherwise) or for the appointment of a liquidator, receiver, administrator, administrative receiver, conservator, custodian, trustee or similar officer of it or of any substantial part or all of its revenues and assets and such proceedings are not frivolous or vexatious or are not being actively contested in good faith by the Bank or, as the case may be, such Material Subsidiary save, in the case of the Bank, for the purposes of reorganisation on terms approved by an Extraordinary Resolution or, in the case of a Material Subsidiary: (i) for the purposes of a solvent consolidation, amalgamation or restructuring, pursuant to which some or all the assets of such Material Subsidiary are transferred to any one or more members of the Group; or (ii) for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution **provided that** a *bona fide* disposal for full value on an arm's-length basis of the whole or a substantial part of the business of the Bank or a Material Subsidiary shall not be deemed in any event to be an Event of Default for the purposes of this sub-paragraph (d);

(e) if the Bank ceases to carry on the whole or a part of its business representing at least 15 per cent. of the property, undertaking or assets of the Bank (calculated by reference to the latest audited consolidated financial statements of the Bank), save for the purposes of reorganisation on terms previously approved by an Extraordinary Resolution **provided that** a *bona fide* disposal for full value on an arm's-length basis of the whole or a substantial part of the business of the Bank shall not be deemed in any event to be an Event of Default for the purposes of this sub-paragraph (e);

(f) the Bank is unable to pay its debts as they fall due, commences negotiations with its creditors as a whole or any one or more classes of its creditors with a view to the general readjustment or rescheduling of its indebtedness or makes a general assignment for the benefit of or a composition with its creditors; or

(g) any execution or distress is levied against, or an encumbrancer takes possession of the whole or 15 per cent. or more of the property, undertaking or assets of the Bank (calculated by reference to the latest audited consolidated financial statements of the Bank) or any event occurs which under the laws of any jurisdiction has a similar or analogous effect, unless such enforcement proceedings are frivolous or vexatious or are being actively contested in good faith by the Bank; or

(h) the Bank or any Material Subsidiary fails to comply with or pay any sum which amount shall not be less than U.S.$10,000,000 due from it under any final non-appealable judgment or any final non-appealable order made or given by any court of competent jurisdiction and such failure continues for a period of 30 days next following the service by any Noteholder on the Bank of notice requiring the same to be paid/remedied; or

(i) by or under the authority of any government, (i) the management of the Bank or any Material Subsidiary is wholly or partially displaced or the authority of the Bank or any Material Subsidiary in the conduct of its business is wholly or partially curtailed or (ii) all or a majority of the issued shares of the Bank or any Material Subsidiary or the whole or any part (the book value of which is

20 per cent. or more of the book value of the whole) of its revenues or assets is seized, nationalised, expropriated or compulsorily acquired; or

(j) if at any time it is or becomes unlawful for the Bank to perform or comply with any or all of its obligations under or in respect of the Notes or any of the material obligations of the Bank thereunder are not or cease to be legal, valid, binding and enforceable; or

(k) if any event occurs which is analogous to any of the events in the foregoing paragraphs (d) to (g) or paragraph (i) above then,

(i) any Noteholder may, by written notice to the Bank at the Specified Office of the Agent, effective upon the date of receipt thereof by the Agent, declare the Note held by such Noteholder to be forthwith due and payable whereupon the same shall become forthwith due and payable at its Early Termination Amount together with accrued interest, if any, to the date of repayment, and any additional amounts as provided or referred to in Condition 11 (*Taxation*) due thereon without presentment, demand, protest or other notice of any kind; and (ii) in relation to Subordinated Notes only, on the occurrence of an event of the kind specified in paragraph (a) above, any Noteholder may institute proceedings in the UAE or any emirate therein (but not elsewhere) for the dissolution and liquidation of the Bank.

For the purposes of these Conditions:

A "**holding company**" of a company or corporation shall be construed as a reference to any company or corporation of which the first-mentioned company or corporation is a Subsidiary.

The "**winding-up**", "**dissolution**" or "**administration**" of a company or corporation shall be construed so as to include any equivalent or analogous proceedings under the law of the jurisdiction in which such company or corporation is incorporated or any jurisdiction in which such company or corporation carries on business including the seeking of liquidation, winding-up, reorganisation, dissolution, administration, arrangement, adjustment, protection or relief of debtors.

13. Prescription

Claims against the Bank for payment of principal and interest in respect of the Notes will be prescribed and become void unless made, in the case of principal, within 10 years or, in the case of interest, five years after the Relevant Date.

14. Replacement of Notes and Coupons

If any Note or Coupon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Issuing and Principal Paying Agent (and, if the Notes are then listed on any stock exchange the rules of which require the appointment of an Agent in any particular place, the Paying Agent having its Specified Office in the place required by such stock exchange), subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note or Coupon is subsequently presented for payment or, or as the case may be, for exchange for further Coupons, there will be paid to the Bank on demand the amount payable by the Bank in respect of such Notes, Coupons or further Coupons) and otherwise as the Bank may require. Mutilated or defaced Notes or Coupons must be surrendered before replacements will be issued.

15. Agents

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Agents act solely as agents of the Bank and do not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Agents and their initial Specified Offices are set out in the Agency Agreement. The initial Calculation Agent (if any) is specified in the relevant Final Terms. The Bank reserves the right at any time to vary or terminate the appointment of any Agent and to appoint a successor Issuing and Principal Paying Agent or Calculation Agent and additional or successor paying agents; **provided**, **however**, **that**:

(a) the Bank shall at all times maintain an Issuing and Principal Paying Agent;

(b) if a Calculation Agent is specified in the relevant Final Terms, the Bank shall at all times maintain a Calculation Agent; and

(c) if and for so long as the Notes are listed on any stock exchange the rules of which require the appointment of a Paying Agent in any particular place, the Bank shall maintain a Paying Agent having its Specified Office in the place required by the rules of such stock exchange.

Notice of any change in any of the Agents or in their Specified Offices shall promptly be given to the Noteholders in accordance with Condition 18 (*Notices*).

16. **Meetings of Noteholders; Modification and Waiver**

(a) ***Meetings of Noteholders***: The Agency Agreement contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Bank and shall be convened by it upon the request in writing of Noteholders holding not less than one-tenth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more Persons holding or representing not less than one half of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting, two or more Persons being or representing Noteholders whatever the principal amount of the Notes held or represented; **provided**, **however**, **that** Reserved Matters may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which one or more Persons holding or representing not less than two-thirds or, at any adjourned meeting, one-quarter of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

In addition, a resolution in writing signed by or on behalf of all Noteholders who for the time being are entitled to receive notice of a meeting of Noteholders will take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

In addition, pursuant to Condition 7(i) (*Benchmark Replacement*), certain changes may be made to the interest calculation provisions of the Floating Rate Notes in the circumstances and as otherwise set out in such Condition, without the request for consent of the Noteholders.

(b) ***Modification***: The Notes and these Conditions may be amended without the consent of the Noteholders or the Couponholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Bank shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature, it is made to correct a manifest error, or it is, in the sole opinion of the Bank, not materially prejudicial to the interests of the Noteholders.

17. **Further Issues**

The Bank may from time to time, without the consent of the Noteholders or the Couponholders, create and issue further notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes and references in these Conditions to "Notes" shall be construed accordingly.

18. **Notices**

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the Financial Times) and, so long as the Notes are admitted to trading on the regulated market of the Luxembourg Stock Exchange and the rules of that exchange so require, a leading newspaper having general circulation in Luxembourg (which is expected to be the *Luxemburger Wort*) or on the website of the Luxembourg Stock Exchange (www.bourse.lu), in either case, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe. Any such notice shall be deemed to have been given on the date of first publication (or if required to be published in more than one newspaper, on the first date on which publication shall have been made in all the required newspapers). Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

19. **Rounding**

For the purposes of any calculations referred to in these Conditions (unless otherwise specified in these Conditions or the relevant Final Terms): (a) all percentages resulting from such calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with 0.000005 per cent. being rounded up to 0.00001 per cent.); (b) all United States dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one half cent being rounded up); (c) all Japanese Yen amounts used in or resulting from such calculations will be rounded downwards to the next lower whole Japanese Yen amount; and (d) all amounts denominated in any other currency used in or resulting from such calculations will be rounded to the nearest two decimal places in such currency, with 0.005 being rounded upwards.

20. **Redenomination, Renominalisation and Reconverting**

(a) ***Application***: This Condition 20 is applicable to the Notes only if it is specified in the relevant Final Terms as being applicable.

(b) ***Redenomination***: If the country of the Specified Currency becomes or, announces its intention to become, a Participating Member State, the Bank may, without the consent of the Noteholders and Couponholders, on giving at least 30 days' prior notice to the Noteholders and the Paying Agents, designate a date, being an Interest Payment Date under the Notes falling on or after the date on which such country becomes a Participating Member State, with effect from which date the Notes shall be deemed to be redenominated into euro at the rate for conversion of the Specified Currency into euro established by the Council of the European Union pursuant to the Treaty (including compliance with rules relating to rounding in accordance with European Community regulations); **provided**, **however**, **that**, if the Bank determines with the agreement of the Issuing and Principal Paying Agent that market practice in respect of the redenomination of internationally offered securities is different from that specified above, such market practice shall prevail and the Bank shall promptly notify the Noteholders and Couponholders, each stock exchange (if any) on which the Notes are then listed and the Paying Agents of the conversion provisions to be applied.

21. **Governing Law and Jurisdiction**

(a) ***Governing Law***: The Agency Agreement, the Deed of Covenant and the Notes and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law, save for the subordination provisions of the Notes which are subject to the application of mandatory provisions of the laws and regulations of the UAE.

(b) ***Submission to Jurisdiction***: The Bank hereby irrevocably agrees for the exclusive benefit of the Noteholders and the Couponholders that the courts of England shall have exclusive jurisdiction to hear and determine any suit, action or proceedings, and to settle any disputes, which may arise out of or in connection with the Notes and the Coupons (respectively, "**Proceedings**" and "**Disputes**") and, for such purposes, irrevocably submits to the jurisdiction of such courts and waives any objection to the exercise of such jurisdiction.

(c) ***Notice of Dispute***: If any Noteholder or Couponholder considers that there is a Dispute, it shall within 14 days notify the Bank in writing of the existence of such Dispute.

(d) ***Arbitration***: Without limiting the rights of the Noteholders and Couponholders under Condition 21(b) (*Submission to Jurisdiction*), any Dispute (including any Dispute regarding the existence, validity or termination of the Notes and/or the Coupons) may be referred by any Noteholder or Couponholder to arbitration in London in accordance with the rules of the London Court of International Arbitration (the "**Rules**") and the Rules shall apply *mutatis mutandis* as if they had been set out in full in this Condition 21(d). The place of arbitration shall be London, England and there shall be three arbitrators each of whom shall be disinterested in the arbitration and shall have no connection with any party thereto. Each party shall nominate one arbitrator for appointment by

the London Court of International Arbitration court and the third arbitrator, who shall act as chairman, shall be jointly nominated by the other arbitrators so nominated and appointed by the London Court of International Arbitration court. The language of the arbitration and award shall be English. If any Noteholder or Couponholder wants to exercise the option of arbitration, it shall do so within 14 days of sending notice of the existence of a Dispute to the Bank pursuant to Condition 21(c) (*Notice of Dispute*).

(e) ***Service of Process***: The Bank agrees that the process by which any Proceedings or Disputes are begun may be served on it by being delivered to Mashreqbank psc, London Branch at 1st Floor, 2 London Wall Building, London EC2M 5PP, United Kingdom. If such person is not or ceases to be effectively appointed to accept service of process on the Bank's behalf, the Bank shall appoint a further person in England to accept service of process on their behalf. Nothing in this Condition 21(e) shall affect the right to serve process in any other manner permitted by law.

(f) ***Waiver of Immunity***: The Bank irrevocably agrees that, should any Proceedings or Disputes be taken anywhere (whether for any injunction, specified performance, damages or otherwise), no immunity (to the extent that it may at any time exist, whether on the grounds of sovereignty or otherwise) of its assets or from execution of judgment shall be claimed by it or on its behalf or with respect to its assets, any such immunity being irrevocably waived. The Bank irrevocably agrees that it and its assets are, and shall be, subject to such Proceedings or Disputes, attachment or execution in respect of its obligations under these Conditions.

(g) ***Consent to Enforcement***: The Bank irrevocably and generally consents in respect of any Proceedings or Disputes anywhere to the giving of any relief or the issue of any process in connection with those Proceedings or Disputes including, without limitation, the making, enforcement or execution against any assets whatsoever (irrespective of their use or intended use) of any order or judgment which may be made or given in those Proceedings or Disputes.

(h) ***No Third Party Rights***: No person shall have any right to enforce any term or condition of this Note under the Contracts (Rights of Third Parties) Act 1999.

USE OF PROCEEDS

The net proceeds from each issue of Notes will be applied by the Bank for its general corporate purposes. If, in respect of any particular issue, there is a particular identified use of proceeds, this will be stated in the relevant Final Terms.

PRESENTATION OF FINANCIAL INFORMATION

Historical financial statements

The historical financial statements relating to the Bank included in this Base Prospectus are:

(a) the audited consolidated annual financial statements as of and for the financial year ended 31 December 2020 (the "**2020 Financial Statements**"); and

(b) the audited consolidated annual financial statements as of and for the financial year ended 31 December 2021 (the "**2021 Financial Statements**" and together with the 2020 Financial Statements, the "**Financial Statements**").

The Financial Statements have been prepared in accordance with International Financial Reporting Standards ("**IFRS**") issued by the International Accounting Standards Board (the "**IASB**").

The Group's financial year ends on 31 December and references in this document to a "financial year" are to the twelve-month period ended on 31 December of the year referred to.

The Group publishes its financial statements in UAE dirham.

Independent Auditors

The Financial Statements have been audited by PricewaterhouseCoopers (Dubai branch) ("**PwC**"), without qualification, in accordance with International Standards on Auditing.

SELECTED FINANCIAL INFORMATION

The following table sets forth selected consolidated financial information of the Bank for the years ended 31 December 2021 and 31 December 2020, which has been derived without material adjustment from the Financial Statements. The selected financial information below should be read in conjunction with the risk factors set forth under heading "Risk Factors", the Financial Statements and other information included elsewhere in this Base Prospectus.

	As at and for the year ended 31 December 2021	As at and for the year ended 31 December 2020
	(in AED Millions)	*(in AED Millions)*
Selected balance sheet data:		
Cash and balances with central banks	17,508	17,942
Deposits and balances due from banks.	28,805	28,239
Loans and advances (net)	66,433	57,286
Islamic financing and investment products measured at amortised cost	15,053	14,246
Investments (net) [(1)]	27,182	19,889
Total assets...	177,054	158,523
Deposits and balances due to banks......	19,566	14,844
Customers' deposits[(2)]	101,483	88,261
Total equity	21,024	20,188
Selected income statement data:		
Net interest income and income from Islamic products net of distribution to depositors	3,045	2,676
Net fee and commission income...........	1,577	1,220
Net investment income.........................	177	321
Other income, net..............................	1,007	931
General and administrative expenses	(2,623)	(2,945)
Profit/(Loss) for the year before non-controlling interests	1,076	(1,205)
Profits/(Loss) attributable to equity holders of the parent.	1,002	(1,278)
Selected ratios (in per cent.):		
Return on average assets[(3)]................	0.65	(0.85)
Return on average equity[(4)]...............	5.15	(6.18)
Net loans to customer deposit ratio...	80.3	81.0
Equity to asset ratio...........................	11.87	12.74

Notes:

(1) Investments (net) are the sum of the line items "Other financial assets measured at fair value", "Other financial assets measured at amortised cost" and "Investment properties" appearing in the Bank's consolidated statements of financial position for each relevant period.

(2) Customers' deposits are the sum of the line items "Customers' deposits" and "Islamic customers' deposits" appearing in the Bank's consolidated statements of financial position for each relevant period.

(3) Return on average assets is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings. See the "*Alternative Performance Measures*" section.

(4) Return on average equity is an adjusted version of return on equity, which measures profitability by revealing profit generated from the money shareholders have invested and where the denominator is average shareholders' equity. See the "*Alternative Performance Measures*" section.

ALTERNATIVE PERFORMANCE MEASURES

Certain financial measures presented by the Bank in this Base Prospectus are not defined in accordance with IFRS. The Bank believes that the alternative performance measures (as defined in the European Securities and Markets Authority guidelines (the "**ESMA Guidelines**") on Alternative Performance Measures ("**APMs**")) included in this Base Prospectus provide useful supplementary information to both investors and to the Bank's management, as they facilitate the evaluation of underlying business performance across financial reporting periods. However, investors are cautioned not to place undue reliance on this information and should note that, since not all companies calculate financial measurements such as the APMs presented by the Bank in this Base Prospectus in the same manner, these are not always directly comparable to performance metrics used by other companies.

Additionally, the APMs presented by the Bank in this Base Prospectus are unaudited and have not been prepared in accordance with IFRS. Accordingly, these financial measures should not be seen as a substitute for measures defined according to IFRS. The Bank considers that the following metrics (which are set out below along with their reconciliation, to the extent that such information is not defined according to IFRS and not included in the Financial Statements annexed to this Base Prospectus) presented in this Base Prospectus constitute APMs for the purposes of the ESMA Guidelines:

APM	Definition of APM	Method of Calculation
Gross non-performing loans to gross loans ratio	Non-performing loans to total gross loans ratio is calculated by using the value of nonperforming loans ("**NPLs**") as the numerator and the total value of the loan portfolio (including NPLs, and before the deduction of specific loan- loss provisions) as the denominator. It is often used as a proxy for asset quality and is intended to identify problems with asset quality in the loan portfolio.	(NPL (impaired loans and advances plus impaired Islamic financing and investment products) minus interest/profit suspended) divided by (Gross Loans (loans and advances plus Islamic financing and investment products minus unearned income) minus interest/profit suspended).
Loan loss coverage ratio	Loan loss coverage ratio is a financial measure which is used to determine how well a bank has prepared for losses on its loan portfolio.	Total allowance for impairment for loans and advances minus interest/profit suspended divided by NPL (impaired loans and advances plus impaired Islamic financing and investment products) minus interest/profit suspended.
Return on average assets	Return on average assets ("**ROA**") is an indicator of how profitable a company is relative to its total assets. ROA gives an idea as to how efficient management is at using its assets to generate earnings.	Profits attributable to owners of the parent divided by average total assets (average of four quarters) excluding customer acceptances and positive fair value of derivatives.
Return on average equity	Return on average equity is an adjusted version of return on equity ("**ROE**"), which measures profitability by revealing profit generated from the money shareholders have invested and where the denominator is average shareholders' equity.	Profits attributable to owners of the parent divided by average equity attributable to owners of the parent (average of four quarters).
Net loans to customer deposit ratio	The loan to deposit ratio is used to calculate a lending institution's ability to cover withdrawals made by its customers. A lending institution that accepts deposits must have a	Net Loans and Advances (loans and advances at amortised cost plus Islamic financing and investment products) divided by total customer deposits

	certain measure of liquidity to maintain its normal daily operations.	(customer deposits plus Islamic customer deposits).
Net loans to customer deposit ratio and medium-term loan	This measures how much of customer deposits and medium term loans in deployed in loans. This also measures the liquidity aspect of bank.	Net Loans (loans and advances at amortised cost plus Islamic financing and investment products) divided by total customer deposits (customer deposits plus Islamic customer deposits) and Medium-Term Loans.
Equity to asset ratio	The shareholder equity ratio determines how much shareholders would receive in the event of a company-wide liquidation. Equity to asset ratio represents the amount of assets on which shareholders have a residual claim.	Total Equity divided by Total Assets.
Customer deposits to total funding base ratio	Banks count on customer deposits as a stable source of funds for their lending base. Deposits offer many advantages to banks, such as predictable costs and a measurement of the degree of customer loyalty.	Total Customer Deposits (customer deposits plus Islamic customer deposits) divided by Funding Base (total liabilities minus other liabilities minus Insurance and Life Assurance Funds plus Paid-up Capital).
Net loans to total assets ratio	Net loans to total assets ratio is a percentage of assets tied up in loans. The higher the ratio, less liquid the bank is. Net loans represent total loans reduced by provision and interest in suspense.	Net Loans (loans and advances at amortised cost plus Islamic financing and investment products at amortised cost) divided by Total Assets.

DESCRIPTION OF THE BANK

History and overview of the Bank

The Bank is the oldest domestic commercial bank in the UAE and was incorporated by a decree of His Highness the Ruler of Dubai as a public shareholding company in the Emirate of Dubai in May 1967. The Bank operates within the UAE and is registered with the Companies' Register of the Securities and Commodities Authority of the UAE under registration number 57. The Bank changed its name to Mashreqbank from Bank of Oman Limited in 1993 and, as at 31 December 2021, was the fifth largest local commercial bank in the UAE in terms of total assets (see further "*Description of the Bank – Competition – Ranking by Total Assets*"). The head office of the Bank is located at Mashreqbank Global Headquarters, Al Umniyati Street, Burj Khalifa Community, P.O. Box 1250, Dubai, UAE. The Bank is regulated by the UAE Central Bank.

The Bank, through its head office in Dubai, operated a network of eight branches in the UAE, twenty one international branches (twelve in Egypt, two in the State of Qatar, two legal entities onshore and offshore in the Kingdom of Bahrain, one branch in each of the United States, the State of Kuwait, the UK, India and Hong Kong) and four representative offices (in China, Bangladesh, Pakistan and Nepal), as at 31 December 2021.

The Bank also operated 14 subsidiaries (eleven in the UAE, one in the Cayman Islands, one in Egypt and one in Pakistan), as at 31 December 2021, which provide services such as insurance, securities brokerage, consumer finance, asset management, investment management, business processing outsourcing (i.e. back office operations) and information technology.

The Bank's core businesses are retail banking, corporate and investment banking, international banking and treasury and capital markets. The Bank offers a diverse range of products and services including trade finance, contract finance, project finance, deposit taking, consumer lending, credit cards, wealth management, electronic funds transfer at points-of-sale, ATMs, call centres, treasury, correspondent banking, online banking and mobile banking. To further enhance its offering, the Bank established an Islamic Banking division offering *Shari'a*-compliant financing in November 2006.

The Bank's operating income, increased from AED 5,148 million for the year ended 31 December 2020 to AED 5,806 million for the year ended 31 December 2021, corresponding to an increase of 12.8 per cent. The Bank's total assets, have increased from AED 158,523 million as at 31 December 2020 to AED 177,054 million as at December 2021, representing an annual growth rate of 11.7 per cent.

The Bank's total loans and advances to customers including Islamic financing, (net of impairment allowances) as at 31 December 2021 were AED 81,486 million, compared with AED 71,533 million as at 31 December 2020. The Bank's customer deposits as at 31 December 2021 were AED 101,483 million, compared with AED 88,261 million as at 31 December 2020.

As at 31 December 2021, approximately 88.6 per cent. of the capital of the Bank is owned by members of the Al-Ghurair family, either directly or indirectly through companies controlled by them, with the balance of the capital being held publicly. Given below are major shareholders of the Bank as of 31 December 2021:

- Saif Al Ghurair Investment Company LLC – 39.50 per cent. of the Bank's share capital;
- Abdulla Ahmed Al Ghurair Investment Co. – 31.10 per cent. of the Bank's share capital; and
- Massar Investments LLC – 12.75 per cent. of the Bank's share capital.

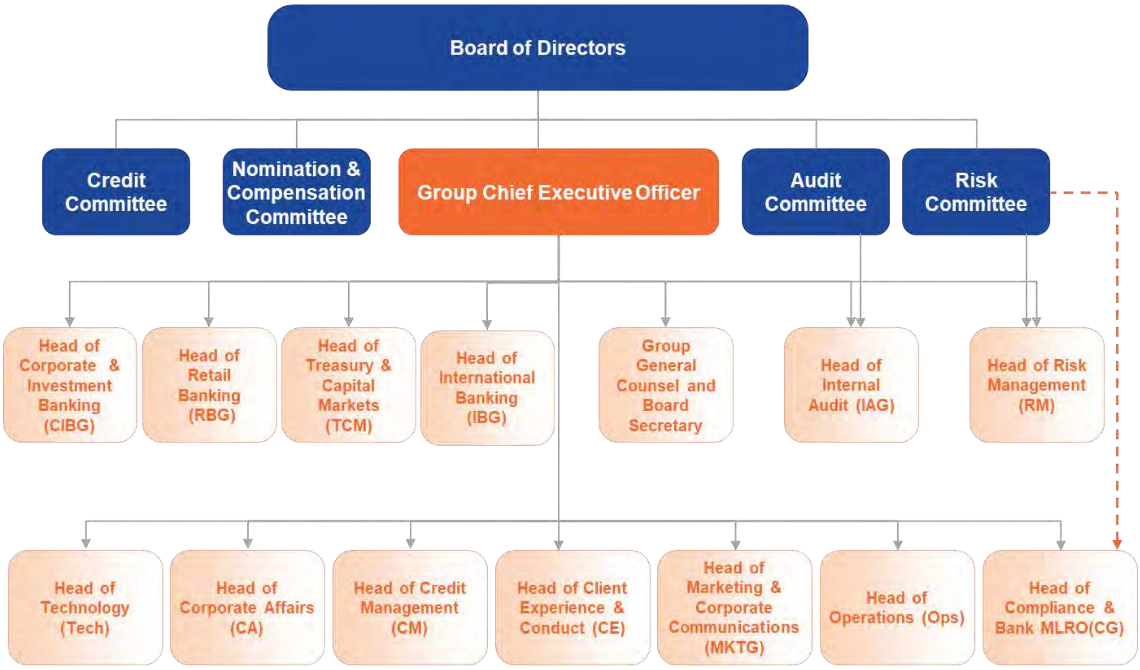
The Bank's shares are listed and traded on the Dubai Financial Market.

Strategy

The Bank introduced a rolling strategic growth plan in 2016 and has continued with it in 2022. This is expected to play an important role in providing strategic guidance and driving the business growth of the Bank. The key areas of the Bank's strategy are articulated around "SIMPLE": (i) superior client experience;

(ii) innovation and information-led transformation; (iii) maximise shareholder value; (iv) performance excellence; (v) lean and agile organisation; and (vi) empowering people.

The following chart sets out the Bank's organisational structure as at the date of this Base Prospectus.



Description of the Bank's business

The Bank divides its business into four business groups: Corporate & Investment Banking, Domestic Retail, Treasury and Capital Markets and International Banking.

1. Corporate & Investment Banking

As a primary delivery channel for corporate banking products in the UAE, the Corporate and Investment Banking Group ("**CIBG**") consists of dedicated industry-specific business divisions and units providing a wide range of conventional and Islamic financial products exclusively to the government, public and private sector entities and emerging corporates across a variety of industries.

The Bank provides a wide range of innovative, customised and need-based financing solutions. These are delivered through the Bank's industry-specific "industry verticals". These verticals are supported by sophisticated product structuring teams and solution delivery experts. The Bank's offering is served out of the UAE with a dedicated operational team in Abu Dhabi, Dubai and Sharjah organised to tap into these markets and position expertise accordingly.

The Bank's industry verticals include the following:

(i) Corporate Origination and Business Development

The Corporate Origination and Business Development Team ("**COBD**") was formed as the first dedicated origination team within the corporate banking function across the UAE. The objective of the team is aligned with the Bank's vision to be the region's most progressive bank, providing bespoke services and enabling innovative solutions for our clients covering both conventional and Islamic products. The COBD initiates new relationships of the Bank, having experience across various industry verticals which covers the full suite of corporate products. The COBD has dedicated coverage teams across large corporates, middle markets, multinationals, Oman and the Kingdom of Saudi Arabia. The COBD leverages its knowledge and segment dynamics to cater to a corporate's unique requirements. The COBD supports clients with innovative banking solutions if they want to venture into new industry sectors, geographies or market segments.

(ii) Global Transaction Banking

The Global Transaction Banking ("**GTB**") industry vertical offers transaction banking products and solutions in the markets that the bank operates in, including its core markets in the UAE, Egypt and other parts of the GCC. These range from complete corporate and financial institution cash and liquidity management, to trade, supply chain financing and commodity trade finance. GTB combines its expertise with comprehensive regional knowledge to pursue business opportunities with customised products and digital solutions to meet the dynamic and holistic needs of its corporate customers.

GTB's solutions are customised and backed by innovative products to support various sectors, leveraging state-of-the-art platforms to deliver consistent payments, collections, acquiring and cards services to a wide and varied customer base that includes both local and regional corporates and multinationals.

The GTB division has been recognised nationally and internationally and has received various awards and accolades for cash, trade, product innovation and service excellence.

(iii) Investment Banking

Investment Banking ("**IB**") provides a full spectrum of capital raising solutions for the Bank's corporate and financial institution client base. IB engages with the Bank's key clients across industry verticals and geographies. As a bank with a presence in diverse markets, the Bank has an award-winning IB platform, with an established track record in leading debt capital raising mandates (conventional & *Shari'a* compliant) and equity & debt advisory services.

The team responds to market conditions and works to meet clients' needs for capital, by developing and implementing tailored solutions to meet their specific financing requirements. Applying expertise across sectors, regions and products, the Bank creates customised, sophisticated strategies to help clients achieve their goals.

The Bank's integrated coverage model offers clients access to industry and geography-specific expertise across all product solutions.

The Bank's high-value-low-volume nature of the IB division has supported the Bank's overall client-first strategy and presents significant growth opportunities in order to achieve the Bank's growth strategy.

Our IB Product Platform:

Loan Syndications

Term Financing for Corporates: The Bank has partnered with a significant number of corporates, both large and mid-market, including debut borrowers, in arranging syndicated loans for the purpose of capital expenditure (capex), refinancing and general corporate purposes, for tenors in line with market practice.

Financial Institutions: The Bank is an active arranger of syndicated loans for financial institutions in Africa, MENA and South Asia. The Bank's loan distribution reach extends across syndicated markets in Europe, Asia and the Middle East.

Leveraged Buyouts: The Bank facilitates new business acquisitions by sponsors and companies, using its ability to structure non-recourse facilities, underwrite and subsequently syndicate to a wider group of banks.

Structured Trade Solutions: The platform explores financing solutions around the working capital cycles of the Bank's key clients and has the ability to devise structures that can ultimately be syndicated across market participants.

Debt Capital Markets

The Bank is a leading arranger and underwriter of debt capital in investment grade and high yield markets, providing clients with strategic advice at each stage of debt issuance, including origination, structuring and distribution. The Bank has an integrated platform that enables it to connect markets and deliver custom-made financing solutions for clients across public benchmark and bespoke private placement formats.

Debt Advisory

Achieving a capital structure aligned to the underlying business cash flows of a corporate is key to sustainable operations. The Bank's Debt Advisory team evaluates the suitability of a client's existing borrowing framework, engages in strategic discussions with clients, recommends an appropriate composition of bank and capital market debt and oversees the execution of debt reprofiling.

Equity Advisory

The Bank's access to the wider investor community, through relationships with financial sponsors, family offices and private banking clients across the region, sits at the core of its Equity Advisory activities. The Bank supports key clients at the final stages of their equity evolutions, with primary and secondary listing services, through alliances with prominent market participants from the region.

(iv) Islamic Banking

The Bank offers a wide range of products and solutions developed on the basis of Islamic banking principles. The Bank caters for the wide-ranging needs of its Islamic banking clients, such as working capital, construction finance, asset procurement, lease rental discounting, liquidity management, asset management and hedging services.

Islamic banking has grown exponentially in the region and the Bank has successfully arranged finance for local and international clients, introducing them to local liquidity and unique Islamic corporate structures.

The Bank is supervised by an independent *Shari'a* Board comprising of world renowned *Shari'a* scholars to ensure a high level of *Shari'a* compliance.

(v) Non-Banking Financial Institutions

The Non-Banking Financial Institutions ("**NBFI**") industry vertical provides coverage and product offerings across each of the regional markets where the Bank operates, across the below sub-segments:

- Insurance Companies
- Investment Holding Companies
- Sovereign Wealth Funds
- Financial Sponsors
- Family Offices
- Pension Funds
- Non-Bank Finance Companies (Finance and Leasing Companies)

NBFI coverage extends to both conventional and Islamic banking offerings with solutions, including:

- Centralised pan-global coverage of the NBFI sector, supported by regional branches in the GCC and overseas branches in Egypt, India, Hong Kong, United Kingdom and United States of America.
- A dedicated team with industry expertise within the NBFI sector.
- The Bank acts as an end-to-end solution provider, including in respect of structured and bespoke solutions.

The Bank's industry expertise ensures tailor-made solutions across each segment, with a suite of product offerings including:

- Relationship lending (term loans and working capital facilities)
- Acquisition and bridge financing
- Fund leverage and capital call structures
- Treasury solutions (including repo versus total return swaps against investments, hedging and foreign exchange solutions)
- Liquidity management and global transaction banking mandates

(vi) Real Estate Finance & Advisory

The Bank's Real Estate Finance & Advisory division is one of the few dedicated real estate platforms amongst banks in the region. Encompassing portfolio coverage and structuring teams, the division offers clients a full suite of services across debt, equity, advisory and trust management activities, and has led the Bank's entry into real estate fund management. It specialises in all key property sectors including in the commercial (offices and industrial), hospitality, residential, logistics and retail sectors.

On the debt side, the division originates and executes innovative structures for mid-market and blue-chip real estate conglomerates including government entities, family offices, financial institutions and developers. The team has built a robust track record by executing landmark bilateral and syndicated transactions in the region. The division offers the following customer solutions:

- Investment property financing
- Development financing
- Hybrid financing
- Non-recourse financing
- Securitisation

On the advisory side, the division leverages its transactional expertise to provide a full range of services including the following:

- Buy-side and sell-side advisory
- Restructuring advisory
- Fund establishment and management
- Feasibility studies
- Commercial due diligence
- Private capital raising

The Real Estate Finance & Advisory industry vertical also leverages its strong relationships with institutional and government agencies to identify growth opportunities for the Bank. The division continues to provide strategic support by managing institutional deposits which represent a major part of the Bank's liabilities portfolio.

The Trust Management team within the Real Estate Finance & Advisory industry vertical has also successfully placed institutional funds in escrow accounts that are managed in-house, achieving a close to 30 per cent. market share of such projects in Dubai. The Trust Management department was the first to be mandated as an authorised escrow agent by the Real Estate Regulatory Agency of Dubai, and won the Bank the award for "Top Trustee Bank" in 2010, 2013 and 2014. The team actively works with the Dubai Land Department on the Tayseer and Owner's Association fronts, and is also assists the Bank's other teams across the Emirates and in Qatar to formalise a streamlined trust management process. Going forward, the Real Estate Finance & Advisory division will leverage synergies across trust management, debt and advisory to arrange financing for stalled projects and help to complete developments that are commercially viable.

(vii) Investment Agency Services – Real Estate Division

The Bank is one of few banks in the region to offer a full suite of facility agency, security agency and initial public offering services to its customers. The Bank seeks to renew focus around its initial public offering function and provide world class services to both participants in large syndicated transactions and fund raising processes.

(viii) Healthcare and Education

The Healthcare and Education division is committed to supporting clients' growth aspirations across the GCC, North Africa and Asia. It is supported by the Bank's strong regional presence, diverse product range and transaction banking and non-lending services, refined sector expertise and an understanding of sector-specific dynamics.

The Healthcare and Education division is committed to supporting clients' growth aspirations across the GCC, North Africa and Asia, backed by the Bank's strong regional presence.

The Bank's sector expertise and agile model enables it to meet the requirements of healthcare and education clients, with versatile product offerings including state-of-the-art payment and liability management solutions, working capital and receivable finance solutions and merger and acquisition facilitation, finance and advisory.

In December 2019 the Bank successfully launched the "Mashreq Healthcare Leaders Forum". The Mashreq Healthcare Leaders Forum is the first financial institution-backed healthcare forum in the Middle East. It aims to bring together thought leaders from across the healthcare sector value chain on one platform, aided by insights and research, to discuss ongoing and expected developments in the healthcare sector.

The sector coverage includes the following sub-verticals:

Education

- K-12 Education providers
- Universities
- Educational and training institutes
- Ed-tech

Healthcare

- Healthcare service providers
- Medical tech and equipment
- Pharmaceutical manufacturers and distributors

(ix) Energy Sector

The Energy Sector division supports clients operating in the conventional hydrocarbon value stream (upstream, midstream and downstream). The Energy Sector division specialises in offering wholesale banking solutions such as trade finance, expansionary credit and structured solutions, with customer centricity being the guiding ethos. The Bank provides bespoke solutions to energy sector clients including corporate finance and debt capital markets offerings. With the growing significance of 'green energy', the Bank continues to invest and grow its profile in the renewable energy sector.

Operating out of a key region for the energy industry, the Bank's presence in the GCC market has allowed it to develop as an industry specialist. Additionally, with the growing significance of 'green energy', the Bank continues to invest and grow its profile in the renewable energy sector.

The Energy Sector division, in collaboration with the Bank's IB division, arranges bespoke solutions including corporate finance and debt capital markets offerings.

The Energy Sector division has successfully expanded its coverage to key operating markets in the GCC and is actively building relationships with industry stakeholders and large international oil companies. Given the UAE's geographical location in the east-west corridor, the Energy Sector division is a leading market participant, facilitating trades of oil & gas, an essential global commodity. The Energy Sector division leverages the Bank's network as well as its financial institution capabilities to mitigate risks for clients. By connecting counterparties and matching trade flows, the Bank's Energy Sector division supports the region's, and in particular the UAE's, position as a key location for the energy industry.

The Energy Sector division partners with renowned communications and research firms such as the Middle East Economic Digest and Gulf Intelligence. These resources can be accessed through the Energy Sector division's dedicated microsites linked to the Bank's corporate website.

(x) Public Sector, Aviation and Utilities

The Public Sector, Aviation and Utilities division covers sectors that are prioritised by and largely sponsored by governments in the region. The division is focused, through dedicated specialised teams, on providing bespoke banking solutions to these sectors, covering the entire gamut of utility finance including generation, transmission and distribution, as well as specialised aviation finance with key market participants in the region.

These are vital and pivotal sectors that remain at the top of government priorities, and attract material investor interest. Governments within the GCC play a vital role in fuelling economic growth with a specific focus on these sectors, not only through their regulatory capabilities but also through rigorous investment activities towards plans to develop their economies and diversify sources of income.

The Bank is committed to help fulfil the potential in these sectors and support clients' growth aspirations within the UAE, as well as elsewhere in the GCC and in Asia, backed by its strong geographical presence, sector specialisation, prominent corporate finance and transaction banking capabilities and state of the art digital banking platforms.

Scope of the sector currently includes the following:

- Public Sector: government authorities, ministries and federal entities
- Aviation: airlines, lessors and airline support companies
- Utilities: power generation, transmission and distribution

(xi) Trading Companies

The UAE has established itself as a global and regional trading hub for the Middle East and Africa region. With reference to foreign trade, the UAE's market is one of the world's most dynamic markets worldwide, placed among the 16 largest exporters and 20 largest importers of commodities, and the Bank is proud to be part of this evolution. The Bank has specifically segregated the Trading Companies division into the following specialisations in order to offer clients customised service levels:

- Retail Trade: fashion, food and beverage, supermarkets, electronics and fast-moving consumer goods
- Commodity: gold and soft commodities
- Automotive: dealers and accessories
- Diversified Groups: conglomerates and family houses

These units house relationship managers who are industry specialists with an ability to tailor and deliver innovative and structured trade finance solutions suited to the business needs of these segments. Industry specialists with in-depth market knowledge provide clients with expert advice and solutions. The specialised units have a deep understanding of trade cycles, providing clients with a sophisticated and customised offering of solutions, speed of execution and digitisation of customer offerings and operations. The units actively preserve an agility to adapt to new technology and have a strong risk culture.

(xii) Services and Manufacturing

The Bank has specialised teams which focus on the services and manufacturing sectors at a global scale. These teams have been able to leverage the Bank's wide geographical footprint and expertise in segments such as telecoms, media, technology, logistics (land and marine), warehousing, tourism, security and facility management, fast-moving consumer goods packaging, building materials (steel and cement) and other diversified segments, including defence and aerospace.

The Middle East is seeing rapid growth and a consistent focus on transitioning towards a non-oil based economy and consequently, governments in the GCC are incentivising the services and manufacturing segments to create a sustainable landscape which supports employment in the region. Through the Bank's specialisation within these segments, the Bank has been able to profile the market by assessing the backward and forward integration mechanism. This in turn has enabled the Bank to benchmark industry triggers as and when they occur, to be better informed and alert to any opportunities and/or challenges that may arise.

(xiii) Business Transformation, Strategy & Intelligence

The Corporate and Investment Banking Group, together with the International Banking Group, is investing in a wholesale banking digital transformation, with the aim to enable top-line growth and differentiate its value proposition from the rest of the regional market.

The Bank's wholesale bank digital strategy is focused on four external and four internal pillars of change, aimed to dramatically impact customer experience.

The customer-facing external pillars are:

1. Analytics: Investing in building an advanced analytics capability in order to identify new areas of portfolio growth and to manage risk

2. Coverage: Transforming the coverage model tools to enable frontline bankers to build stronger, deeper client relationships through a simplified operating environment

3. Next generation products: Transformation of transaction banking to provide innovative digital cash, trade and supply chain and liquidity management solutions

4. Digital customer journeys: Rebuilding customer journeys, starting with the credit customer journey, to provide efficient, customer-centric digital processes, enabling swifter access to credit with superior customer experience

The internal pillars are:

1. People: Investing in digital talent to grow internal capability and capacity for delivering the target operating model and digital solutions

2. Agile: Reorganising transformation teams into multidisciplinary 'agile squads' in order to decentralise ownership and increase autonomy

3. Technology: Investments in modernising the technology development architecture and accelerate the pace of change

4. Collaboration: Breaking down divisional silos to provide a 'one bank' approach to building shared capabilities across wholesale and retail

2. Domestic Retail

With a domestic network of 8 branches, 13 electronic business service units, 450 ATMs and 23 interactive teller machines spread across the UAE, the Bank is one of the leading providers of retail banking services in the UAE. The Bank also provides retail banking products and services, through its branches, in a number of other countries including Qatar and Egypt.

The Bank's retail banking products and services encompass a wide range of consumer loans, as well as basic and enhanced current accounts, demand, savings and term deposits, investment certificates, checking account services, electronic funds services, foreign exchange services, debit and credit cards. As part of its retail portfolio, the Bank also offers a range of bancassurance products, which focus on whole life and term life insurance.

The Bank continues to encourage the adoption of digital banking in the UAE and beyond. In 2019, the Bank launched a programme to transform its branch network, focusing on advisory services that encourage greater human interactions between employees and customers for major financial decisions. For everyday transactions, the Bank's state-of-the-art technology enables customers to benefit from a wide range of self-service facilities, and the Bank plans to expand the range of these solutions to make banking quicker, easier and more accessible across the Bank's network. In 2021, the Bank's branches migrated 98 per cent. of all financial transactions and over 60 per cent. of non-financial transactions to alternative service channels such as machines, mobiles and online services.

The Bank was the first UAE bank to launch a fully-fledged digital bank, Mashreq Neo. In 2021, Mashreq Neo witnessed an uptake of approximately 45 per cent. of new customer acquisition, and the Bank has major projects in the pipeline to expand these services beyond personal banking to cater to businesses and other client segments. This was soon followed by Mashreq's Neo Biz, the first digital banking proposition in UAE that will offer customised and specifically tailored digital offerings for SME's including start-ups and young businesses in the country. NeoBiz offers a better solution for businesses by providing an intuitive, uniform and convenient digital account opening experience, with speed and predictability. This, together with the Bank's chatbot for assistance, information submission or KYC portal, enhanced transaction capability and value added services, offers the Bank's customers a comprehensive suite of digital services.

The Bank was the first bank to establish Masterpass QR as well as Alipay in the region, and one of the first banks to introduce both Apple Pay and Samsung Pay when they launched in the UAE. The Bank also launched its own digital wallet, Mashreq Pay, allowing customers to simply tap and pay at retail outlets, making their payment experience quicker, easier and more secure. The Bank is also a part of the Emirates Digital Wallet initiative, working closely with the government to enable accessible cashless solutions for the unbanked and underbanked.

The Bank's reputation for providing innovative solutions has been recognised by industry bodies. In 2021, the Bank received several awards across many segments of the business relating to its innovative solutions. These included the "The Best Digital Bank in the Region from Asia Money" and "Best Branch Digitization and Digital Banking from MEA Finance 2021", in addition to many others.

The Bank has increased its presence in private banking through bespoke financial solutions that cater to ultra-high net worth individuals and owners of companies. This includes building a portfolio of investment advisory services covering a range of in-house and third-party investment products such as equity mutual funds, fixed income funds, insurance and structured notes. The Bank has further signed an agreement with Bank of Singapore which will allow the Bank's high net worth clients to open wealth management accounts in Singapore, a globally recognised offshore booking centre.

The Bank continues to invest in initiatives that have the potential to not only deliver benefits for the business and its customers but also to support the overall start-up ecosystem in the UAE. In line with this objective, the Bank has partnered with the Dubai International Financial Centre ("**DIFC**") in the Fintech Hive start-up boot camp where conglomeration of new start-ups had presented their product and business ideas.

The Bank is also one of the two banks to sponsor the Dubai technology entrepreneur campus entrepreneur acceleration programme at Dubai Silicon Oasis where the Bank provided insights into financial management and banking processes to budding entrepreneurs.

In addition to the above, the Bank has a strategic alliance with the Dubai Department of Economic Development (the "**DED**") and has created a tailor made product for DED E-Trader customers.

3. Treasury and Capital Markets ("TCM")

The Bank's TCM group works closely with the Bank's corporate, retail and international banking groups to serve the needs of its corporate, retail and financial institutions customers in the fields of treasury and investment products, both locally and internationally.

Mashreq Securities LLC, a subsidiary of the Bank, is an accredited securities broker on the Dubai Financial Market PJSC, the Abu Dhabi Securities Exchange ("**ADX**") and NASDAQ Dubai. Mashreq Securities LLC offers brokerage in both conventional as well as Islamic formats.

The Bank also facilitates access to regional and international markets. It offers individual and institutional clients a range of products and services via trading platforms.

The Bank is also a broker and clearing member of the Dubai Gold and Commodities Exchange and a member of the Dubai Metal Exchange and has established an asset management subsidiary, Mashreq Capital (DIFC) Limited in the DIFC. In addition, the Bank's TCM group undertakes a limited amount of proprietary trading activity.

In recent years, the Bank has extended its TCM product range to include customised derivative products designed to meet customers' individual investment and hedging requirements in foreign exchange, interest rates and equities.

The TCM group is also primarily responsible for managing the Bank's liquidity requirements. It acts under the supervision of ALCO.

Rates and Fixed Income Desk

The Rates and Fixed Income desk focuses on providing liability hedging solutions and tailor-made investment strategies to corporate, institutional and high net worth customers of the bank across the GCC region. The desk provides access to primary and secondary fixed income markets to the Bank's clients including banks, corporates, non-bank financial institutions, family offices and high net worth individuals. The desk produces several research publications on a periodic basis covering international and regional economic and market developments. The desk was involved in the marketing, distribution and placement of a number of new bond transactions during 2021, including acting as a Joint Lead Manager and Bookrunner in the sovereign issuances by the United Arab Emirates and the Emirate of Sharjah and issuances by banks including Axis Bank Ltd., Sovcombank PJSC, Access Bank PLC, United Bank for Africa PLC, Ecobank Nigeria Ltd. and Ecobank Transnational Inc. The desk also worked on sukuk issuances by Emaar Properties PJSC and Ahli United Bank BSC in the capacity of a Joint Lead Manager and Bookrunner. The desk has continued to expand its reverse repo offering by adding new relationships and volumes which are expected to grow further during 2022.

Asset Management

The Bank's Asset Management business is comprised of discretionary mandates for professional investors and public funds across a wide spectrum of strategies. The public funds are housed in DIFC.

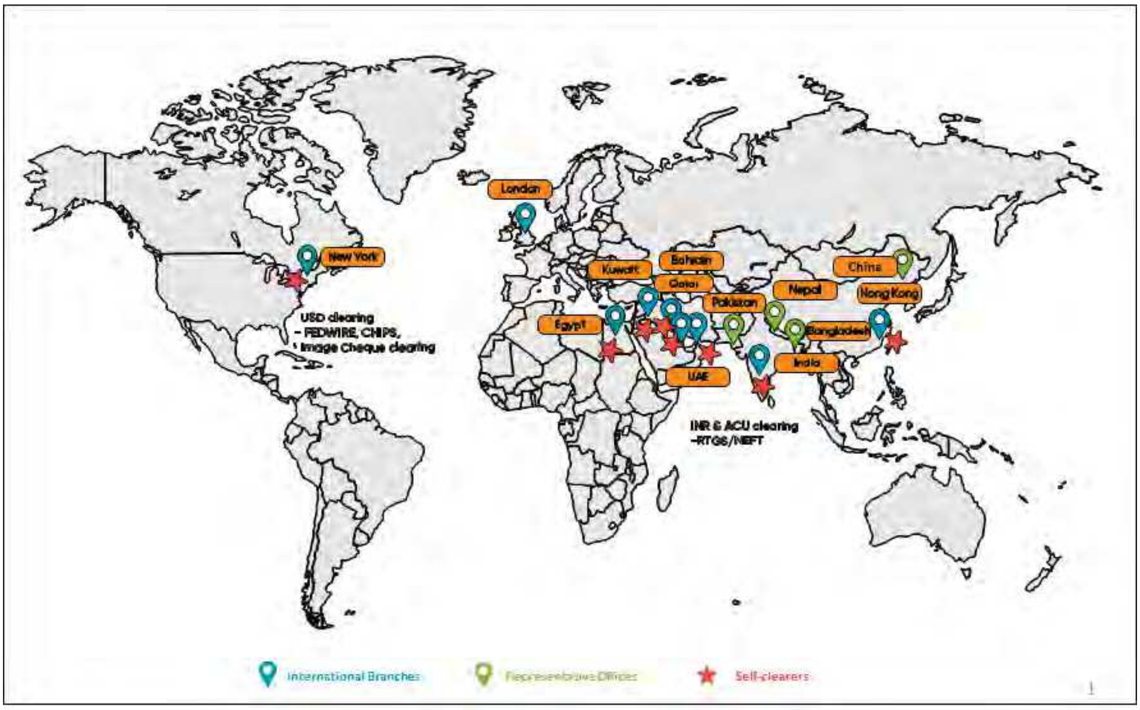
Mashreq Capital (DIFC) Ltd. ("**MC**") is regulated by the Dubai Financial Services Authority and is responsible for running the public funds and discretionary mandates. MC specialises in regional public equities and global fixed income, in both the *Shari'a* and conventional spaces. MC offers comprehensive investment solutions, leveraging on regional investment expertise and fundamental research capability to deliver customized solutions. MC has one of the longest track records of any asset manager in the region.

4. International Banking

Mashreq's international network spans twelve countries: the United States, the United Kingdom, Kuwait, India and Hong Kong operate one branch each; Egypt has twelve branches in Cairo and Alexandria; The Kingdom of Bahrain has two legal entities of onshore and offshore and the State of Qatar has two branches in Doha. The Bank is also present in Pakistan, Bangladesh, Nepal and China through representative offices. The offshore banking license in the Kingdom of Bahrain plays an important role in both mobilizing wholesale low cost institutional deposits and in the growth of the Bank's Bahraini business.

The Bank takes part in USD clearing, intermediating international trade and taking related corporate exposure in key countries having a trade link with the GCC. Core to its strategy, the Bank focuses on growing its international corporate, financial institutions and public sector book of business by leveraging its footprint to provide a wide array of financial services and products to its clients.

The Bank's Widespread Network



Loan Portfolio

The Bank's total loans and advances to customers (net of impairment allowances) were AED 81,486 million as at 31 December 2021 and AED 71,533 million as at 31 December 2020. The following table sets out the Bank's gross loans (including Islamic financing and interest proceeds), provisions and loan to deposit ratios as at the dates indicated.

	As at 31 December 2021	As at 31 December 2020
	(AED Millions)	
Gross loans	88,207	77,344
Interest / other income in suspense	(875)	(766)
Allowances for impairment	(5,846)	(5,045)
Net loans	81,486	71,533
Net loans/customer deposits (per cent.)	80.3	81.0
Net loans/customer deposit + medium term loan (per cent.)	74.9	73.1

Distribution of Loans by Type of Collateral

As at 31 December 2021, the Bank held collateral to the value of approximately AED 45.8 billion against loans and advances, consisting primarily of mortgage interests over property, other registered securities over assets and guarantees.

The Bank's credit procedures and policies specify margins and collateral coverage ratios (i.e. loan to value of collateral) depending on the type of facility and collateral obtained as well as the financial strength of the underlying borrower. The Bank has systems in place to monitor and enforce margin and collateral top-up requirements, if any. The Bank's method of valuing the collateral depends upon the type of collateral taken. The Bank also obtains independent valuations of other types of collateral on a regular basis. Borrowers may be required to provide a cash top-up or provide additional collateral as a result of such valuations.

Consumer loans provided for the purchase of assets, such as vehicles or residential property, are typically secured by the relevant assets. Those assets which are the subject of security in favour of the Bank are valued in advance of the loan being granted. For the purposes of calculating collateral coverage ratios, the Bank uses the lower of the purchase cost or fair market value of the relevant assets. Unsecured consumer loans are granted against the transfer of salary of the borrower and to employees of pre-approved companies or government departments.

Distribution of Loans by Maturity

The following table shows the distribution of the Bank's loan portfolio (net of impairment allowances) by maturity as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021	**As at 31 December 2020**
	(AED Millions)	
Short-term loans[(1)]	37,002	34,692
Medium and long-term loans[(2)]	44,484	36,841
Total	81,486	71,533

Notes:

(1) Residual Maturities of up to and including one year.

(2) Residual Maturities in excess of one year.

Distribution of Loans by Currency

The following table shows the distribution of the Bank's loan portfolio (net of impairment allowances) by currency as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021	**As at 31 December 2020**
	(AED Millions)	
AED	46,834	44,002
Foreign currency	34,652	27,531
Total	81,486	71,533

The loans and advances, including Islamic financing, made by the Bank are typically funded in the same currency as the deposits and other sources of funds obtained by the Bank, which limits the Bank's exposure to exchange rate fluctuations. See "*Risk Management — Currency Risk Management*" below.

Credit Approval Procedures

The Board of Directors of the Bank delegates approval authorities to the Chairman of the Bank. The Chairman then delegates such authorities to the Chief Executive Officer ("**CEO**") and Chief Credit Officer ("**CCO**") of the Bank, who are, in turn, authorised to delegate certain credit approval authorities further within the credit risk management team of the Bank, based on the experience and employment grades of the credit approvers in the team.

The CCO is responsible for overseeing all aspects of credit underwriting and management, and is supported by a team of experienced and trained credit risk managers.

The CCO and credit risk managers have delegated authority within the risk management framework to approve credit transactions and manage credit risk on an ongoing basis. Credit proposals exceeding the authority of the CCO will be submitted to the CEO, Chairman and/or to Board Credit Committee for approval.

The Bank has separate approval processes for its wholesale and retail businesses.

Commercial Lending

All credit applications are subject to the Bank's credit policies, credit limits, underwriting standards and industry caps (if any) and to regulatory requirements, as applicable from time to time.

Credit applications typically include the following information: the risk rating of the borrower; transaction details (including the amount and type of facility sought and pricing); the relevant credit conditions of the borrower; the security details of the borrower; information relating to the operating condition, business and management of the borrower including a detailed financial analysis, background/historical information relating to the borrower and related industry factors. The Bank sets credit limits for all borrowers and/or counterparties based on their creditworthiness.

The Bank has implemented a credit risk rating framework that supports the development of key credit risk parameter estimates in order to measure credit and transaction risk. In 2016, the Bank partnered with Moody's Risk Analytics to perform a Basel internal ratings-based compliant redevelopment and model validation exercise. The risk parameters used in the new risk rating models are transparent and may be replicated in order to provide consistency of credit approval, as well as providing minimum lending standards for each of the risk rating categories. The Bank's credit risk rating system is subject to a model governance and review framework which stipulates periodic validation and continuous monitoring of key performance indicators for these models. The objectives of this framework are to ensure that credit risk rating methodologies and parameters remain appropriately designed and developed, independently validated, and regularly reviewed. Credit risk rating models, however, remain subject to model risk due to their statistical nature and the data limitations. These models are developed by the Enterprise Risk Management team under the umbrella of the Chief Risk Officer ("**CRO**").

All credit lines or facilities extended by the Bank are approved within delegated authorities under the ultimate authority of the Board Credit Committee.

The Bank has established country limits for cross-border and transfer risk between countries. Individual country limits are defined based on a detailed country and transfer risk policy, defining acceptable country credit risk exposure and evaluating and controlling cross border risk. These limits are regularly reviewed by the Bank's credit risk management and periodically reviewed by the Enterprise Risk Committee. The Bank uses an international risk rating system to differentiate between the quality of various sovereign risks.

The Bank has diversified its exposure to avoid concentration risk. However, growth in exposure in some international jurisdictions with a higher risk profile than the UAE could have a material impact on Bank's results.

Retail Lending

Each retail credit application is considered for approval according to a product programme, which is devised in accordance with product policy parameters approved by the CCO. The product policies are guided by the Bank's overarching Retail Credit Policy Manual, which is approved by the Board Risk Committee. Different authority levels are specified for approving product programmes and exceptions to, and individual loans/credits under, such product programmes. Each product programme contains detailed credit criteria (for example salary multiples, bank statements, age, residency, etc.) and regulatory, compliance and documentation requirements, as well as other operating requirements. Credit authority levels range from Level 1 (approval of a credit application meeting all the criteria of an already approved product programme) to Level 5 which is authorised by the CCO.

Credit Review Procedures and Loan Classification

Specialists within the Enterprise Risk Management (Fundamental Credit Review) and Internal Audit groups undertake regular reviews of the Bank's portfolio. This involves a sampling of assets in the wholesale portfolio. In retail, the focus is on testing the Bank's risk management processes, including the periodic review of retail assets, portfolio quality and related provisions. Specialist independent auditors subject the Bank's risk assets to a quality evaluation on a regular basis. Reviews are conducted in conformity with the guidelines of the UAE Central Bank and the Bank's internal policies in order to assist in the early identification of accrual and potential performance problems. The specialists validate risk ratings of those commercial and institutional clients and ensure approved credit policies, guidelines and operating procedures across the Bank are implemented, or highlight identified gaps in their reports.

The Fundamental Credit Review and Internal Audit groups function to provide the Bank's management and the Board of Directors with an independent and objective assessment, as well as ongoing monitoring of the quality of asset portfolios across the Bank. It is an important component of the Bank's enterprise-wide risk management framework designed to assist the Bank's management in ensuring that asset portfolios are managed in a manner consistent with strategy, risk appetite, sound qualitative and quantitative credit due diligence, emerging risks, credit policies and applicable credit regulatory requirements.

Loan Classification

The Bank has in place a risk rating system for its wholesale borrowers based on probability of default models. An application and behavioural scorecard has also been developed for the Bank's principal retail products.

The Bank's master risk rating scale for performing assets is comprised of twenty five grades (MRS1 TO MRS25) and encompasses material asset portfolios of the Bank. Risk ratings are granularly defined and, as they are based on specific models for specific segments, are comparable across the entire portfolio.

While the Bank has adopted the risk rating system, it continues to ensure that its policies remain compliant with UAE Central Bank regulations. The Bank's portfolio of non-performing loans (obligations which are more than 90 days past due for principal or interest) continue, however, to be rated either 50, 60, 70 or 80, corresponding to classifications of as being Non-Accrual Under Restructuring, Sub standard, Doubtful or Loss, as required by applicable UAE Central Bank regulations. The UAE Central Bank requires the following classification policy:

- Watchlist: These are loans and advances, including Islamic financing, where the borrower shows some weaknesses in its financial condition and credit-worthiness, requiring focused attention but not allocation of provisions;

- Sub standard loan: These are loans which may lead to the Bank to incur some loss due to adverse factors (financial, economic, legal, political, or managerial) which may hinder repayment, or due to weakening of security. Normally, this category includes loans and advances in which payment of principal is in arrears beyond 90 days. In such a case, a provision of 25 per cent. of the total loan balance is required;

- Doubtful loan: These are loans, the full recovery of which seems doubtful on the basis of information available, leading generally to a loss of part of these loans (when the financial position of the customer is not sound and securities are not sufficient). In such a case, a provision of 50 per cent. of the total loan balance is required; and

- Loss loan: These are loans where the bank has exhausted all courses of action available but failed to recover anything or where there is a possibility that nothing will be recovered. In such a case, a provision of 100 per cent. of the total loan balance is required.

(*Note: The specific provisions as above are to be based on the Net Exposure Amount, that being the Outstanding Loan balance less the Net Realisable Value of the collateral held calculated as per the UAE Central Bank guidelines*).

Provisions

The Bank's policy for the calculation of impairment provisions for loans and advances complies in all material respects with the specific and general provision requirements of the UAE Central Bank. Additionally, in line with the UAE Central Bank guidelines, all banks operating in the UAE are required, in addition to the specific provisions, to build a general provision for unclassified loans and advances equal to 1.5 per cent. of risk weighted assets. The Bank currently maintains a general provision of 2.1 per cent. of its total gross loan portfolio, including Islamic financing. As at 31 December 2021, the Bank had specific impairment allowances for loans of AED 4,911 million in addition to a collective impairment allowance of AED 1,810 million.

Impairment allowance requirements in respect of classified assets (under the Bank's internal risk classification) broadly follow the following guidelines for the Bank's exposure:

Category	Provision (%)
Sub-standard	25
Doubtful	50
Loss	100

Retail banking products are provisioned in accordance with UAE Central Bank regulations. The Bank writes off retail assets (excluding mortgages) once they are 180 days past their due date. Retail mortgage loans are provided in line with UAE Central Bank regulation which mandates provisioning from 90 days past due, calculated on discounted loan-to-value-based on current valuation. Loss, given default and expected loss metrics have also been developed for the major retail products.

In addition to the above and in accordance with UAE Central Bank guidance notes to banks and finance companies, the Bank also measures general provisions under IFRS 9 rules. IFRS 9 outlines a 'three-stage' risk-based model for calculation of impairment based on changes in credit quality since initial recognition of a facility. As required by UAE Central Bank guidelines, the Bank takes the higher of the loan loss provisions required under IFRS 9 and UAE Central Bank regulations.

In adopting prudent credit review and risk management procedures, the Bank seeks to maintain tight control over its loan portfolio to manage credit costs effectively and to minimise unexpected losses.

The Bank also has a separate collection and recovery team for all delinquent retail lending, which commences collection efforts between one and 30 days after the first default. More aggressive recovery efforts are initiated when a loan has been delinquent for more than 90 days. For the wholesale portfolio, the Bank has a separate unit, the Special Asset Unit, which is responsible for handling non-performing commercial loans with a view to ensuring maximum recovery for the Bank. In addition, the Bank's legal department is fully involved throughout the remedial process, initiating appropriate legal action where necessary.

Impact of the new IFRS 9 Impairment guidelines

International Financial Reporting Standards

In January 2018, the Bank adopted the IFRS 9 standard, which resulted in changes to the Bank's presentations and disclosure in its financial statements, as required by IFRS. This has fundamentally redesigned the provisioning process, moving from an 'incurred loss' model to a forward-looking 'expected loss' model. The standard contains a 'three stage' approach to recognise credit impairment, which is based on the changes observed in credit quality of financial assets since initial recognition. Assets move through the three stages as credit quality changes and the stages dictate the level of impairment losses to be recognised. For the recognition of impairment losses on financial assets, expected loss is to be computed.

Doubtful and Loss Accounts – Customers

The following table shows the Bank's non-performing loans, including Islamic financing, and related provisions and ratios as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021	As at 31 December 2020
	(AED Millions)	
Gross loans	88,207	77,344
Interest / other income in suspense	875	766
Impairment allowance for doubtful loans	5,846	5,045
Total allowance for impairment	6,721	5,811
Non-performing loans	5,434	4,637
Gross non-performing loans to gross loans ratio	5.2	5.1
Loan loss coverage ratio	128	130

The Bank charges interest on most non-performing accounts for litigation purposes but does not record such accrued income with respect to non-performing accounts as income in preparing its financial statements. The Bank writes off certain loans against provisions held, in order to streamline its loan portfolio and in the year ended 31 December 2021, the Bank wrote off AED 1.0 billion from classified accounts which had been provisioned.

Doubtful and Loss Accounts – Banks

The following table shows the Bank's non-performing assets and related provisions and ratios as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021	**As at 31 December 2020**
	(AED Millions)	
Due from banks (gross)	28,973	28,405
Non-performing bank assets	79	85
Impairment allowance for bank assets	167	166
Non-performing bank assets/total due from bank (per cent.)	0.27	0.30
Total impairment allowance/non-performing bank assets (per cent.)	211.4	195.3

Investment Portfolio

As at 31 December 2021, the Bank's investment portfolio represented 15.4 per cent. of its total assets (compared with 12.5 per cent. as at 31 December 2020).

The equity holdings of the Bank constituted 2.5 per cent. of the Bank's investment portfolio as at 31 December 2021 (compared with 2.6 per cent. as at 31 December 2020). Debt securities held by the Bank include securities issued by banks, GCC and OECD sovereigns, as well as a range of other high-grade bonds.

Deposits and Other Funding Sources

As at 31 December 2021, customer deposits constituted 65 per cent. of the Bank's total liabilities (compared with 63.8 per cent. as at 31 December 2020).

In February 2004, the Bank established this Euro Medium Term Note Programme. The programme size was increased from U.S.$750 million to U.S.$2 billion in March 2006 and increased again to U.S.$5 billion in September 2010.

In 2017, the Bank issued 61 private placement Notes under the euro medium term note programme for a total of U.S.$1,640.6 million. In 2018, the Bank issued 63 private placement Notes under the euro medium term note programme for a total of U.S.$1,909.1 million. In 2019, the Bank issued 76 private placement notes for a total of U.S.$2,021 million and a U.S.$675 million benchmark 5-year public bond under the Programme during 2019. In 2020, the Bank issued 22 private placement notes for a total of U.S.$618.1 million.

The following table sets out the maturity profile of the Bank's liabilities as at 31 December 2021 and 31 December 2020:

	As at 31 December 2021		**As at 31 December 2020**	
	(AED Million)	*Per cent.*	*(AED Million)*	*Per cent.*
Short-term(1)	145,981	93.6	122,689	88.7
Long-term(2)	10,048	6.4	15,646	11.3
Total	156,029	100	138,335	100

(1) Short-term means deposits maturing in less than one year, and other liabilities.

(2) Long-term means deposits and borrowing maturing in more than one year.

Market Risk Management

The Bank's exposure to market risk in investments and other trading products is monitored and controlled on a daily basis by the Bank's Market & Traded Credit Risk Unit under the Risk Management division using detailed daily management information reports. The Treasury and Capital Markets group stipulates individual dealer position and trading limits in treasury managed activities within the overall regulatory guidelines and according to the Bank's internal frameworks and risk appetite. Cross border and financial institutions exposure limits for money market and other banking activities are approved in accordance with guidelines set out in the Bank's credit policy and within the Bank's defined risk appetite framework.

A key element in market risk management is the estimation of potential loss that may arise from adverse changes in market conditions. To estimate such potential loss, the Bank implemented a Value at Risk ("**VaR**") model which is being used to set VaR based limits with respect to market risk. The VaR model takes into account variables that may affect portfolio value such as interest rates, foreign exchange rates and security prices and their respective volatilities, and the correlations between these variables. The VaR estimates take account of potential diversification benefits of different positions both within each and across different portfolios.

Liquidity Risk Management

The Bank manages its liquidity in accordance with UAE Central Bank requirements and its own internal guidelines. The UAE Central Bank sets cash reserve requirements on deposits, which are currently 1 per cent. on time deposits and 7 per cent. on current, savings and call deposits. The UAE Central Bank also imposes a mandatory 1:1 utilisation ratio whereby loans and advances (combined with interbank placements having a remaining term of greater than three months) should not exceed stable funds. Stable funds are defined by the UAE Central Bank to mean free own funds, interbank deposits with a remaining term of more than six months and stable customer deposits. As at 31 December 2021, the Bank's net loans and advances, including Islamic financing, to stable funds ratio was 88.7 per cent. To guard against liquidity risk, the Bank has diversified its funding sources and manages its assets with liquidity in mind, seeking to maintain a balance of cash, cash equivalents and readily marketable securities. ALCO sets and monitors liquidity ratios and regularly revises and updates the Bank's liquidity management policies to ensure that the Bank is in a position to meet its obligations as they fall due.

The following table sets forth a number of liquidity ratios for the Bank as at 31 December 2021 and 2020:

Liquidity Ratios	**As at 31 December 2021**	**As at 31 December 2020**
Customer deposits/total funding base	68.8	68.1
Net loans/customer deposits	80.3	81.0
Net loans/total assets	46.0	45.1

Interest Rate Risk Management

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

The Bank uses simulation-modelling tools to periodically measure and monitor interest rate sensitivity. The results are analysed and monitored by ALCO. Most of the Bank's assets and liabilities are of a floating rate nature and therefore the price of both assets and liabilities move simultaneously, providing a natural hedge and reducing interest rate exposure. Moreover, the majority of the Bank's assets and liabilities reprice within one year, thereby further limiting interest rate risk.

Currency Risk Management

The UAE dirham is the Bank's functional currency. The majority of the Bank's assets and liabilities are denominated in UAE dirham or U.S. dollars. As a result, limited structural cross-currency foreign currency exposure exists. However, as at 31 December 2021, the Bank does maintain a short U.S. dollar position of AED 2.8 billion, which is within limits approved by ALCO. The Bank's other net foreign exchange exposure was not significant.

See Note 43 to the 2021 Financial Statements.

Internal Audit

The Internal Audit Group in the Bank provides independent assurance on the effectiveness of lending and risk management processes. The group verifies that the credit facilities provided adheres to the Bank's internal policies and regulatory guidelines. It also reviews the processes associated with portfolio monitoring, know your customer (KYC), operating procedures and adherence to *Shari'ah* compliance guidelines, as applicable. For commercial and institutional clients, it further includes credit initiation, approval, account management and the risk rating assigned to the borrower. For the retail customers, the audit team also assesses the processes to highlight portfolio risk by product and segment.

Competition

As at 31 December 2021, the Bank was the fifth largest local bank in the UAE in terms of total assets (see below "*Ranking by Total Assets*"). The Bank competes principally with other commercial banks in the UAE, but also faces competition from regional and international banks and investment companies.

The following tables show rankings of local banks operating in the UAE by total assets, customer deposits, total loans and advances and retail loans and advances as at 31 December 2021 and 31 December 2020:

Ranking by Total Assets	**As at 31 December 2021**	**As at 31 December 2020**
	(AED Millions)	
First Abu Dhabi Bank	1,000,343	919,060
Emirates NBD	687,436	698,087
Abu Dhabi Commercial Bank	440,278	411,156
Dubai Islamic Bank	279,082	289,556
Mashreqbank	177,054	158,253
Abu Dhabi Islamic Bank	136,868	127,816

Source: Annual reports and financial statements of the relevant banks for the year ended 31 December 2021.

Ranking by Customer Deposits	**As at 31 December 2021**	**As at 31 December 2020**
	(AED Millions)	
First Abu Dhabi Bank	614,459	540,882
Emirates NBD	456,483	464,197
Abu Dhabi Commercial Bank	265,052	251,395
Dubai Islamic Bank	205,845	205,925
Abu Dhabi Islamic Bank	109,611	101,276
Mashreqbank	101,483	88,261

Source: 2021 Annual reports and financial statements of the relevant banks for the year ended 31 December 2021.

Ranking by Loans and Advances	**As at 31 December 2021**	**As at 31 December 2020**
	(AED Millions)	
Emirates NBD	422,272	443,541
First Abu Dhabi Bank	410,155	386,644
Abu Dhabi Commercial Bank	244,282	238,976
Dubai Islamic Bank	288,485	232,034
Abu Dhabi Islamic Bank	88,251	83,409
Mashreqbank	81,486	71,533

Source: 2021 Annual reports and financial statements of the relevant banks for the year ended 31 December 2021.

Property

The Bank owns a multi-storey building in Dubai as its corporate headquarters. The Bank also owns buildings in Abu Dhabi, Ajman and Dubai, each of which is partially occupied by the Bank. The total cost of real property assets owned by the Bank as at 31 December 2021 was AED 1,189 million with accumulated depreciation of AED 253 million, giving a net book value of the Bank's real estate assets as of such date of AED 936 million. The Bank also owns land costing AED 202 million, which was acquired in settlement of debt. As at 31 December 2021, the book value of such properties was AED 86 million.

Capital Expenditure

For the period ended 31 December 2021, the Bank incurred capital expenditure amounting to AED 129 million and for the year ended 31 December 2020, the Bank incurred AED 336 million of capital expenditure.

Capital Adequacy

The UAE Central Bank, as per Basel III guidelines requires all UAE banks to maintain a minimum total capital adequacy ratio, calculated as the sum of Tier 1 Capital and Tier 2 Capital, of 10.5 per cent. Effective from 1 January 2019, within this minimum capital adequacy ratio, banks are required to maintain a 7 per cent. minimum Common Equity Tier 1 ratio and an 8.5 per cent. minimum Tier 1 Capital ratio. Additionally, banks are required to maintain a 2.5 per cent. Capital Conservation Buffer, as per transitional arrangement. The total capital adequacy ratio including Capital Conservation Buffer comes to 13 per cent.

As at 31 December 2021, the Bank had a total capital adequacy ratio of 14.5 per cent., a Tier 1 Capital ratio of 13.4 per cent. and a Tier 2 Capital ratio of 1.1 per cent., which are all above the minimum UAE Central Bank requirements. The Bank's capital management is aimed at maintaining an optimum level of capital to enable it to pursue strategies that build long-term shareholder value, whilst always meeting minimum regulatory capital adequacy ratio requirements.

Leverage & Liquidity

Basel III introduced a minimum 3 per cent. leverage ratio effective 30 June 2020 and two liquidity ratios, Liquidity Coverage Ratio ("**LCR**") and Net Stable Funding Ratio ("**NSFR**").

LCR requires a bank to hold sufficient high-quality liquid assets to cover its total net cash flows over 30 days stress testing period. Banks are required to maintain minimum LCR ratio of 100 per cent. from 1 January 2019. The Bank's LCR ratio as at 31 December 2021 was 149 per cent.

Anti-Money Laundering Policy

The Bank has implemented an Anti-Money Laundering ("**AML**") programme that is designed to comply with all applicable local laws, regulations and guidance relating the prevention of money laundering, terrorist financing and related financial crimes. The AML programme includes, *inter alia*, written policies and procedures, a designated Money Laundering Reporting Officer, regular training of relevant Bank employees and independent testing of the programme. The Bank operates automated systems and manual monitoring to detect potential suspicious activities which are subject to external reporting obligations to appropriate supervisory agencies in accordance with all applicable laws. The Bank continuously strengthens its AML programme by updating written policies, procedures and internal controls designed to prevent, detect and mitigate all applicable financial crime risks. For further detail regarding the Bank's AML programme, see "*Regulatory – 2018 Consent Order*" below.

Regulatory

2021 Consent Order

In 2021, the Bank reached a resolution with the New York State Department of Financial Services (the "**DFS**"), the Federal Reserve Board of Governors and Federal Reserve Bank of New York (the "**Fed**") and the U.S. Department of the Treasury's Office of Foreign Assets Control ("**OFAC**") regarding violations of OFAC's Sudanese Sanctions Regulations for the period between January 2005 and February 2009. Pursuant to a Consent Order entered into by the Bank and the DFS (the "**2021 Consent Order**"), the Bank has agreed to pay the DFS a total of U.S.$100 million over a two-year period. In contrast, by reference to the same transaction activity, the Fed and OFAC did not impose a financial penalty on the Bank.

The 2021 Consent Order and the resolutions reached with the Fed and OFAC address findings relating to the Bank's processing of U.S dollar payments through U.S. correspondent banks originating from accounts of Sudanese banks held outside the United States, a practice that the Bank self-terminated in February 2009. As noted by the DFS in the 2021 Consent Order, the Bank fully cooperated with the DFS during its investigation into these matters, including by reporting on the results of its internal investigation of such matters, and that the Bank had on its own initiative undertaken significant remediation to prevent similar events from recurring. The DFS also noted that the Bank had demonstrated a commitment to building an effective and sustainable OFAC compliance programme, which the DFS deemed adequate with sufficient controls in place. Both the 2021 Consent Order and the resolution with the Fed impose certain post-settlement reporting obligations, including a requirement by the Fed to retain an independent consultant to conduct an OFAC compliance review.

Dialogue with a US Agency regarding 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 any such penalty.

2018 Consent Order

In 2018, the Bank reached a settlement with certain U.S. authorities regarding U.S. sanctions compliance in the period 2016 to 2017, involving a Consent Order by the DFS (the "**2018 Consent Order**"). Under the terms of the 2018 Consent Order, the Bank has agreed to pay the DFS a total of U.S.$40 million.

The 2018 Consent Order addresses findings related to Anti-Money Laundering and Bank Secrecy Act violations as well as regulations issued by OFAC as relates to the activities of the New York Branch of the Bank, which provides U.S. dollar clearing services.

The 2018 Consent Order did not specify any wilful violations by the Bank. In particular, it was noted in the 2018 Consent Order that the Bank has demonstrated a keen interest in and commitment to, remediating its regulatory issues addressed in the 2018 Consent Order and has demonstrated laudable conduct in seeking to meet its compliance obligations.

The Bank is committed to establishing and maintaining appropriate and effective Anti-Money Laundering, Bank Secrecy Act and sanctions compliance policies. The Bank has worked with the DFS appointed consultant on the remediation and improvement of all Anti-Money Laundering, Bank Secrecy Act and sanctions compliance policies, procedures, methodologies and systems. The Bank has enhanced and implemented: (i) a Bank Secrecy Act, Anti-Money Laundering and Sanctions Program Manual; (ii) KYC Policy and Standard Operating Procedures; (iii) Transaction Monitoring Standard Operating Procedures; (iv) Quality Assurance Methodology and Standard Operating Procedures; (v) Customer Risk Assessment Methodology and Form; (vi) Geographic Risk Assessment Methodology; (vii) Training Policy; (viii) DFS Part 504 Procedures; (ix) Sanctions Standard Operating Procedures; and (x) Anti-Money Laundering Tuning Methodology. The Bank continues to evaluate and enhance its sanctions screening system "Fircosoft" and transaction monitoring system "Actimize".

Tax

The Bank is not subject to tax in the UAE, whether corporate or otherwise. The Bank may be subject to tax in other jurisdictions where it operates.

Subsidiaries

As at 31 December 2021, the Bank had 14 direct subsidiaries which included: Oman Insurance Company (PSC), Osool a Finance Company (PJSC), Mindscape FZ LLC, Mashreq Securities LLC, Mashreq Al-Islami Finance Company (PJSC), Injaz Services FZ LLC, Mashreq Capital (DIFC) Limited, Invictus Limited, Al Taqania Employment Services One Person LLC, Al Kaafat Employment Services One Person Company LLC, Shorouq Commodities Trading DMCC, IDFAA payment Services LLC, Mashreq for Business Process Support (Sole Person Company) & Mashreq Global Services (SMC private) Limited.

Oman Insurance Company Limited

Oman Insurance Company Limited ("**Oman Insurance Company**") is 64.46 per cent. owned by the Bank and is the largest insurance company in the UAE. It provides a wide range of insurance products and services. As at 31 December 2021, it had total assets of AED 7,556 million, compared with total assets of AED 7,635 million as at 31 December 2020. In the year ended 31 December 2021, Oman Insurance Company contributed net income of AED 133 million to the Bank (after non-controlling interests), compared with contributed net income of AED 124 million for the year ended December 2020.

Osool-A Finance Company (PJSC)

The Bank owns 98 per cent. of the shares of Osool-A Finance Company (PJSC) ("**Osool**"), a consumer finance company. As at 31 December 2021, it had total assets of AED 164 million, compared with total assets of AED 163 million as at 31 December 2020. In the year ended 31 December 2021, Osool generated AED 2.8 million of net income, compared with net income of AED 1.2 million in the year ended 31 December 2020. Currently no new business is booked in Osool-A Finance Company.

Mindscape FZ-LLC

The Bank owns 100 per cent. of the shares in Mindscape FZ-LLC ("**Mindscape**"), which provides technology solutions and support to the Bank and its subsidiaries. As at 31 December 2021, Mindscape had total assets of AED 1,905 million, compared with total assets of AED 2,134 million as at 31 December 2020. In the year ended 31 December 2021, Mindscape generated net income of AED 11.2 million (after non-controlling interests), compared with AED 7.9 million in the year ended 31 December 2020.

Mashreq Securities LLC

The Bank owns 99.98 per cent. of the shares in Mashreq Securities LLC ("**Mashreq Securities**"), a securities brokerage which is authorised to trade on the Dubai Financial Market and Abu Dhabi Finance Market. As at 31 December 2021, Mashreq Securities had total assets of AED 63 million, compared with total assets of AED 68 million as at 31 December 2020. In the year ended 31 December 2021, Mashreq Securities generated a net loss of AED 1.3 million (after non-controlling interests), compared with net loss of AED 3.4 million in the year ended 31 December 2020.

Mashreq Al-Islami Finance Company (PJSC)

The Bank owns 99.8 per cent. of the shares of Mashreq Al Islami Finance Company (PJSC) which provides *Shari'a*-compliant finance for personal consumer and commercial purposes. As at 31 December 2021, it had assets of AED 1,275 million compared with total assets of AED 1,235 million as at 31 December 2020 and made a net profit of AED 40 million (after the non-controlling interest) compared with AED 7.9 million in the year ended 31 December 2020.

Mashreq Capital (DIFC) Limited

The Bank owns 100 per cent. of the shares in Mashreq Capital (DIFC) Limited ("**Mashreq Capital**") which runs fixed income and equities funds in the DIFC. As at 31 December 2021, Mashreq Capital had total assets of AED 26 million.

Injaz Services FZ LLC

The Bank owns 100 per cent. of the shares in Injaz Services FZ LLC ("**Injaz**"), which is registered in the Dubai Outsourcing Zone and acts as the business processing outsourcing unit of the Bank.

Invictus Limited

The Bank owns 100 per cent. of shares of Invictus Limited a special purpose vehicle incorporated in the Cayman Islands. As at 31 December 2021, Invictus Limited had assets of AED 892 million.

Al Kaafat Employment Services One Person Company LLC

The Bank owns 100 per cent. of the shares of Al Kaafat Employment Services One Person (LLC) (formerly known as Al Kafaat Employment Services (LLC)), which provides employment services, such as secretarial, sales, telephonic, answering service, data processing, data entry, collections, recovery and marketing services. As at 31 December 2021, the company had assets of AED 2.4 million.

Al Taqania Employment Services One Person Company LLC

The Bank owns 100 per cent. of the shares in Al Taqania Employment Services One Person Company LLC (formerly known as Al Taqania Employment Services (LLC)), which provides employment services such as secretarial, sales, telephonic, answering service, data processing, data entry, collections, recovery and marketing services. As at 31 December 2021, the company had assets of AED 10 million.

Shorouq Commodities Trading DMCC

The Bank owns 100 per cent. of the shares of Shorouq Commodities Trading, a trading company incorporated in the DMCC free zone. Primary activities of the company include trading of refined oil, petrochemicals, steel and metal products. As at 31 December 2021, the company had assets of AED 272 million.

IDFAA payment Services LLC

The Bank owns 100 per cent. of the shares of IDFAA Payment Services LLC which provides payment services for the Bank.

Mashreq for Business Process Support (Sole Person Company)

The Bank owns 100 per cent. of the shares of Mashreq for Business Process Support (Sole Person Company), which provides employment services in Egypt.

Mashreq Global Services (SMC private) Limited

The Bank owns 100 per cent. of the shares of Mashreq for Business Process Support (Sole Person Company), which provides employment services in Pakistan.

Associate

As at 31 December 2021, the Bank had one Associate which is Emirates Digital Wallet LLC.

The Bank owns 23.22 per cent. of the shares of Emirates Digital Wallet LLC, which provides digital wallet services in UAE.

Joint Venture

As at 31 December 2021, the Bank had one Joint Venture which is Noon Digital Pay LLC.

The Bank owns 51.00 per cent. of the shares of Noon Digital Pay LLC, which provides digital wallet services in UAE.

MANAGEMENT AND EMPLOYEES

Board of Directors

The Bank operates under the direction of a Board of Directors which meets every quarter. The Board of Directors is comprised of seven elected members and is vested with the powers to manage the Bank and conduct its business in accordance with its objects and with Federal Law No. 2 of 2015, as amended, concerning commercial companies of the UAE, the Bank's articles of association and resolutions of the shareholders. Two of the seven directors are independent directors who are not related to the major shareholders of the Bank or the Chairman. All directors are non-executive directors. The Board of Directors is elected as a body by the shareholders in an ordinary general meeting for a term of three years and each Director is eligible for re-election upon the expiration of that term. The Chairman and the Vice Chairman of the Bank are elected by the Board of Directors. The Board of Directors appoints a Chief Executive Officer who is responsible for implementing board resolutions and managing the day-to-day business of the Bank, although the overall responsibility for the direction and strategy of the business of the Bank remains vested in the Board of Directors.

The following table sets forth the names of the members of the Bank's Board of Directors

Name	Position
1. Abdul Aziz Abdulla Al Ghurair	Chairman
2. Ali Rashid Ahmed Lootah	Vice Chairman
3. Rashed Saif Ahmad Al Ghurair	Director
4. Rashed Saif Saeed Al Jarwan Al Shamsi	Director
5. John Iossifidis…………..	Director
6. Iyad Malas..	Director
7. Saeed Saif Al Ghurair	Director

Detailed below is brief biographical information on the members of the Bank's Board of Directors.

H.E. Abdul Aziz Abdulla Al Ghurair

His Excellency, Abdul Aziz Al Ghurair, is the Chairman of the Board of Directors of the Bank. Prior to his election as Chairman, Mr Abdul Aziz Abdulla Al Ghurair held the position of Chief Executive Officer and Director of the Bank since 1991. He is also a member of the Board of Directors of Abdullah Al Ghurair Group of Companies. His Excellency holds an honours degree in Industrial Engineering from the California Polytechnic State University.

Mr. Ali Rashid Ahmed Lootah

Mr. Ali Rashid Ahmed Lootah has been a Director of the Bank since 1996. He is a prominent member of a Dubai business family. Mr. Ali Lootah is a Civil Engineering graduate from Clarkson University in the United States, Vice Chairman of the Board of Directors of the Bank, Chairman of the Board Risk Committee and member of the Board Credit Committee and member of the Board Nomination and Compensation Committee of the Bank. Mr. Ali Rashid Ahmed Lootah is a Board member of Dubai World and was the Chairman of the Board of Directors of Nakheel PJSC until January 2020.

Mr. Rashed Saif Ahmed Al Ghurair

Mr. Rashed Saif Ahmed Al Ghurair has been a Board member of the Bank since 2013. He is also a member of the Board Risk Committee of the Bank. Mr. Rashed Saif Ahmed Al Ghurair also holds the following positions: Chairman of Taghleef Industries and Director at Saif Al Ghurair Group.

Mr. Rashed Saif Saeed Al Jarwan Al Shamsi

Mr. Rashed Saif Saeed Al Jarwan Al Shamsi has been a Director of the Bank since July 2013. He holds a Bachelor of Science degree in Petroleum and Natural Gas Engineering from Pennsylvania State University in the United States. He is the Chairman of Board Credit Committee, a member of the Board Audit

Committee and a member of the Board Remuneration and Compensation Committee. Mr. Rashed Saif Saeed Al Jarwan Al Shamsi also holds the following positions: Vice Chairman of Dana Gas PJSC, Board member at Emarat, Board member at Oman Insurance PJSC, Board member at DIFCA and Board member at Al Ghurair Holding Ltd.

Mr. John Iossifidis

Mr. John Iossifidis joined the Board of Directors of the Bank in 2021. He holds a Master of Business Administration ("**MBA**") degree from Monash University, Australia. He is the Chairman of the Board Audit Committee and a member of the Board Risk Committee of the Bank. Mr. John Iossifidis formerly served as the CEO of Noor Bank and also holds the following positions: member of the Australian Institute of Company Directors, member of the Australian Business Council, Fellow of the Australian Institute of Bankers and CEO of AGI.

Mr. Iyad Malas

Mr. Iyad Malas joined the Bank's Board of Directors in 2021. He holds an MBA degree from George Washington University in the United States. He is a member of the Board Credit Committee and a member of the Board Audit Committee at Mashreq Bank. Mr. Iyad Malas formerly served as the CEO of Majid Al Futtaim Holding and also holds the following positions: CEO of Al Ghurair Group LLC and Chairman of the Board of Beco VC fund.

Mr. Saeed Saif Al Ghurair

Mr. Saeed Saif Al Ghurair joined the Bank's Board of Directors in 2021 and holds a degree in Mechanical Engineering from Northeastern University, Boston, in the United States. He is the Chairman of the Board Nomination and Compensation Committee at the Bank. Mr. Saeed Saif Al Ghurair also holds the following positions: CEO of Al Ghurair Commodities and Board member of Al Ghurair Group LLC.

The business address of the Directors of the Bank is Mashreqbank Global Headquarters, Al Umniyati Street, Burj Khalifa Community, P.O. Box 1250, Dubai, UAE.

Conflicts

There are no potential conflicts of interest between the duties to the Bank of the Directors of the Bank listed above and their private interests or duties.

Management Team

Management of the day-to-day operations of the Bank is the responsibility of the Management Team. The Management Team meets regularly to discuss the business strategy, business plans and performance, investment strategy and operations of the Bank and submits recommendations to the Board of Directors.

The following table sets forth the names of the senior officers of the Bank who comprised the Management Team as at the date of this Base Prospectus.

Name	Position
Ahmed Abdelaal	Group Chief Executive Officer
Ali Raza Khan	Group Head of Corporate Affairs
Tarek El Nahas	Group Head of International Banking
Fernando Morillo Lopez	Group Head of Retail Banking
Nasser A. Paracha	Group Head of Internal Audit
Hammad Naqvi	Group Head of Treasury and Capital Markets
Roy Philip Sebastian	Group Chief Credit Officer
Anuratna Chadha	Group Chief Risk Officer
Joel D Van Dusen	Group Head of Corporate & Investment Banking

Name	Position
Ellis Wang	Group Head of Technology, Transformation and Information
Mark Edwards	Group Head of Operations
Scott Ramsay	Group Head of Compliance & Bank Money Laundering Reporting Officer
Rania Nerhal	Chief Client Experience & Conduct Officer - Client Experience & Conduct Group and Acting Group Head of Marketing and Corporate Communications
Marouf Mohamed Shweikeh	Group General Counsel

None of the members of the Management Team is related to the major shareholders or the Chairman. Detailed below is brief biographical information on the members of the Management Team of the Bank.

Mr. Ahmed Abdelaal – Group Chief Executive Officer

Mr. Ahmed Abdelaal is an alumnus of London Business School and holds an MBA. He joined the Bank in November 2017. Prior to joining the Bank, he was the Regional Head of Corporate Clients Coverage MENAT and Head of Commercial Banking UAE at HSBC. Prior to that he was Regional Head, Corporate Banking and Structured Finance, Large Corporate MENAT. He had been with HSBC for over a decade in progressively senior roles before joining the Bank. He has also worked for ABN Amro, American Express and Arab Bank.

Mr. Ali Raza Khan – Group Head of Corporate Affairs

Mr. Ali Raza Khan joined the Bank in 1980. He holds a Bachelor of Science degree from Kanpur University. He became a member of the Institute of Chartered Accountants of India in 1978. During the past 41 years Mr. Khan has served in different positions within the Bank including as Operations Manager, Central Account Division Manager and Head of the Human Resources Division. As Group Head of Corporate Affairs, he is responsible for finance, planning, accounts, human resources, procurement and administrative functions in the Bank.

Mr. Tarek El Nahas – Group Head of International Banking

Mr. Tarek El Nahas joined the Bank in 2020. He holds a Bachelor of Arts degree in Economics and Political Science from the American University in Cairo and a Master of Science degree in Economics from the London School of Economics.

Mr. Fernando Morillo Lopez – Head of Retail Banking

Mr. Fernando Morillo Lopez joined the Bank in 2021. He holds a General Management Programme degree from Harvard Business School, an MBA from Instituto de Empresa in Madrid and a Bachelor of Science degree in Aeronautical Engineering from Universidad Politécnica de Madrid.

Mr. Nasser A. Paracha – Group Head of Internal Audit

Mr Nasser A. Paracha joined the Bank in October 1995. He is an alumnus of Harvard Business School ("**HBS**") in the United States, having completed a General Management Programme at HBS and has a bachelor's degree in Operational Research and Computing from the University of Leeds in the United Kingdom. During his tenure, Mr. Nasser A. Paracha served in different positions within the Bank including as Compliance Manager, Head of Compliance and Head of Audit. Prior to joining the Bank, he worked with Deutsche Bank AG in Karachi (Pakistan), as Assistant Manager – Corporate Banking.

Mr. Hammad Naqvi – Group Head of Treasury and Capital Markets

Mr. Hammad Naqvi joined the Bank in 1996. He holds an MBA degree from the Institute of Business Administration in Karachi. Prior to joining the Bank in 1996, he was Head of Treasury with Bank of

America, Pakistan and he was also posted as Treasurer of Bank of America, Poland. He also spent two years in the merchant banking division of ANZ Grindlays in Pakistan.

Mr. Roy Philip Sebastian – Group Chief Credit Officer

Mr. Roy Philip Sebastian joined the Bank in 2019. He holds a Master's Degree in Commerce and is a Certified Associate of Indian Institute of Bankers. He is a seasoned banking professional with over 30 years of work experience specialising in Credit Risk Management and Corporate Banking. Prior to joining the Bank, he spent over 21 years with HSBC Group in the Middle East. His last position held was as Regional Head of Credit Approval, Wholesale Credit MENAT, HSBC.

Mr. Anuratna Chadha – Group Chief Risk Officer

Mr. Anuratna Chadha joined the Bank in 2019. He has an MBA from the Indian Institute of Management, Ahmedabad and holds a Bachelor's Degree in Commerce from Shri Ram College of Commerce, Delhi. His banking career spans over 30 years, primarily in risk management, wholesale and corporate banking across Singapore, Japan, India and South Africa.

Mr. Ellis Wang – Group Head of Technology, Transformation and Information

Mr. Ellis Wang joined the Bank in 2020. He has a Master's Degree in Computer Science and Information Engineering from National Cheng Kung University in Taiwan. Mr Ellis Wang has over 25 years of diverse experience, working for organisations such as McKinsey, ICONIQ Motors, EJY365, Alibaba Group and Google (China and US).

Mr. Mark Edwards – Group Head of Operations

Mr. Mark Edwards joined the Bank in 2020. He is a Business Management graduate from the University of Stirling in the United Kingdom and the executive management programme from INSEAD (France and Singapore). Mr. Mark Edwards has over 25 years of experience in business operations and with international and regional baking experience across banking operations, shared services, business transformation, project management and corporate integration.

Mr. Scott Ramsay – Group Head of Compliance & Bank Money Laundering Reporting Officer

Mr. Scott Ramsay joined the Bank in 2020. He has a Master of Laws honours degree from Victoria University of Wellington in New Zealand. Mr Scott Ramsay has over 15 years of banking and senior management experience, with an extensive background in areas of compliance, financial crimes and anti-money laundering, amongst others.

Ms. Rania Nerhal – Chief Client Experience & Conduct Officer – Client Experience & Conduct Group

Ms. Rania Nerhal joined the Bank in 2018. She has a Bachelor's Degree in Economics from the Faculty of Commerce and Foreign Trade, Cairo, Egypt. She has more than 25 years of experience in client relationship management in the banking industry. Before joining the Bank, she held executive management roles such as Head of Client Corporate Coverage and Head of Large Corporates & Public Sector at HSBC, Egyptian American Bank, Commercial Bank of Dubai, and Al Ahli Bank of Kuwait.

Mr. Marouf Mohamed Shweikeh – Group General Counsel

Mr. Marouf Mohamed Shweikeh joined the Bank in 2021. He has a Master in Laws in International Commercial Law from the University of Sussex, United Kingdom. Mr. Marouf Mohamed Shweikeh has over 25 years of legal experience. His functional expertise covers areas such as lending transactions, new market entry and due diligence, legally focused product development, regulatory projects, privatisation and commercial litigation, in addition to arbitration and mediation.

Conflicts

There are no potential conflicts of interest between the duties to the Bank of the members of the Management Team listed above and their private interests or duties.

Board Remuneration

The members of the Board of Directors of the Bank did not receive any remuneration and benefits in kind during the year ended 31 December 2021 as the Bank declared a loss in the financial year 2020.

Employees

As at 31 December 2021, the Bank employed 4,903 full-time staff. The Bank has not experienced any strikes since its establishment and considers its relationship with its employees to be good.

The Bank has a variable pay scheme for all employees pursuant to which a performance bonus is awarded to top performers based on annual performance appraisals. The bonus paid is a function of the performance of the Bank, the performance of the respective unit for which the individual works and the individual's own performance.

The Bank has incentive plans for sales staff in various business segments. These incentives are paid on each sale booked, covering personal loans, credit cards and investment products; in most cases, the Bank utilises a stepped incentive structure.

Emiratisation

The Bank supports the UAE government's mandate to gradually nationalise its employee work force. In order to move towards fulfilling this commitment, the Bank gives first priority to UAE nationals at all levels within the Bank, subject to the availability of requisite talent in the market. In line with current UAE national work force demographics, entry level positions are generally filled by UAE nationals. Recruiting, developing and retaining UAE nationals is a focus area for the Bank. See further "*Management and Employees – Employees – Emiratisation*" and "*The United Arab Emirates Banking System and Prudential Regulation – Expatriate workforce*".

Transactions with related parties

As at 31 December 2021, certain related parties (Directors, Key management personnel) and major shareholders of the Bank and companies of which they are principal owners were customers of the Bank in the ordinary course of business and, in the aggregate, had outstanding customers' deposits of AED 1,260 million (compared with AED 1,169 million as at 31 December 2020), loans and advances, including Islamic financing, in the amount of AED 2,935 million (compared with AED 3,648 million as at 31 December 2020) and letters of credit, guarantees and acceptances in the amount of AED 1,860 million (compared with AED 1,445 million as at 31 December 2020). All such transactions were made on substantially the same terms, including as to interest rates and collateral, as loans prevailing at the same time for comparable transactions with unrelated parties and did not involve more than a normal amount of risk.

Corporate Governance

The Bank has in place corporate governance rules based on industry best practices, the UAE Commercial Companies Law No. 32 of 2021, UAE Central Bank regulations and the UAE Securities and Commodities Authority code on corporate governance.

The Bank takes its corporate governance obligations seriously and to that end the Board of Directors has appointed the following committees as an important element in the overall corporate governance framework of the Bank:

- The Audit Committee of the Board, consisting of three non-executive directors;
- The Board Risk Committee, consisting of three non-executive directors;
- The Board Credit Committee, consisting of three non-executive directors; and
- The Board Nomination and Compensation Committee, consisting of three non-executive directors.

The Board has appointed several committees consisting of the CEO and senior management:

- The Executive Management Committee (ExCo);
- The Asset-Liability Committee (ALCO);
- The Group Capital Allocation Committee (GCAC);
- The Investment Committee (IC);
- The Regulatory Compliance Committee (RCC);
- The Human Resource Committee (HRC);
- The Enterprise Risk Committee (ERC); and
- The Information Security Committee (ISC).

Additionally, the Bank has well-established policies and procedures documented in various manuals and supported by detailed standard operating procedures. The Bank has a written code of conduct to be followed by all employees (including senior management) and adherence to it is monitored closely.

THE UNITED ARAB EMIRATES BANKING SYSTEM AND PRUDENTIAL REGULATION

Overview

According to data published by the UAE Central Bank, as at 31 November 2021 there were a total of 48 commercial banks (21 locally incorporated commercial banks and 27 foreign commercial banks) licensed to operate in the UAE. As a result, the UAE could be, and has historically been, viewed as an over-banked market, even by regional standards and there has traditionally been little impetus for consolidation. However, the consummation of the merger of National Bank of Abu Dhabi and First Gulf Bank on 30 March 2017, which created First Abu Dhabi Bank (the "**Merger**"), one of the largest banks in the MENA region by assets, stimulated further movement towards greater consolidation amongst UAE banks (see "*Characteristics of the Banking System – Historic lack of consolidation*" below).

The UAE's membership of the World Trade Organisation ("**WTO**") will likely require greater economic liberalisation, but it is unclear to what extent this will encourage foreign banks to further expand their presence in the market. In the long-term, however, it is likely to lead to increased competition, which should spur consolidation, both within the UAE and across the region generally.

Within the UAE, the financial sector was estimated to have contributed approximately 8.2 per cent. of real GDP in 2020 (*source*: FCSA National Account information for 2010-2020).

As a banking regulator, the UAE Central Bank, established in 1980, has grown in stature over the years and is the governing body that regulates and supervises all banks operating in the UAE. The UAE Central Bank monitors banks through its Banking Supervision and Examination Department. It conducts reviews of banks periodically based on the risk profile of each bank. It also reviews all of the returns submitted by the banks to the UAE Central Bank.

Historically, the UAE Central Bank does not act as a "lender of last resort". Instead, this role tends to fall on the individual Emirs of each Emirate. However, the introduction by the UAE Central Bank in 2014 of the interim marginal lending facility ("**IMLF**") allows non-Islamic UAE banks to use certain rated or UAE federal or local government entity issued assets as collateral to access UAE Central Bank liquidity overnight in order to help their liquidity management (see "*The United Arab Emirates Banking Sector and Prudential Regulation – Recent Trends in Banking – Liquidity*" below).

COVID-19

In response to the COVID-19 outbreak (see "*Risk Factors – Risks related to the Bank's business activities and industry – Impact of recent macroeconomic and financial market conditions*"), effective from 15 March 2020, the UAE Central Bank has implemented the TESS, which includes a range of measures aimed at mitigating the economic effects of COVID-19 on the UAE economy. The TESS and other accompanying stimulus measures include (in addition to reducing interest rates as discussed in such risk factor):

TESS

- allowing banks operating in the UAE access to funding, against collateral, extended at zero cost by the UAE Central Bank until 30 June 2022 under the TESS recovery programme, the proceeds of which are to be used by UAE banks to grant new financing to private sector corporate customers and retail clients;

- allowing banks operating in the UAE access to funding, against collateral, extended at zero cost by the UAE Central Bank until 31 December 2021 under the TESS deferral programme, the proceeds of which are to be used by UAE banks to offer payment deferral relief on loans or financing to private sector corporate customers and retail clients;

- whilst keeping the existing 2.50 per cent. capital conservation buffer in place, allowing banks to utilise 60 per cent. of their capital conservation buffer without supervisory consequences until 30 June 2022;

- allowing banks that are subject to the LCR to fall below the regulatory LCR requirement of 100 per cent., provided that their LCR is higher than or equal to 70 per cent., while other banks are able to fall below the regulatory Eligible Liquid Assets Ratio ("**ELAR**") requirement of 10 per cent., provided that their ELAR is higher or equal to 7 per cent., with such changes to the LCR and ELAR applicable until 30 June 2022;

- allowing banks that are subject to NSFR to fall below the regulatory NSFR requirement of 100 per cent., provided that their NSFR is higher than or equal to 90 per cent., while other banks are allowed to go above the regulatory Advances to Stable Resources Ratio ("**ASRR**") requirement of 100 per cent., provided that their ASRR is lower than or equal to 110 per cent., with such changes to the NSFR and ASRR being applicable until 30 June 2022 for all banks operating in the UAE; and

- expecting banks to leave unchanged and not downgrade the IFRS 9 staging and classification of customers who are receiving temporary relief linked to the TESS and are temporarily and mildly impacted by COVID-19, thereby having no significant impact on their creditworthiness. In the case of customers who are receiving temporary relief linked to the TESS but are expected to be significantly impacted by COVID-19 in the long-term, thereby having a significant impact on their creditworthiness, expecting banks to downgrade such customers to either Stage 2 or Stage 3 in accordance with IFRS 9.

Further measures to support the UAE economy in response to COVID-19

- decreasing the UAE Central Bank's minimum reserve requirement for all current, call and savings deposits from 14 per cent. to 7 per cent.;

- postponing the planned implementation of certain Basel III capital requirements in a phased manner from 30 June 2021 to 30 June 2022; and

- allowing banks to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter will allow any increase in IFRS9 provisioning compared to 31 December 2019 to be partially added back to regulatory capital. This will allow IFRS 9 provisions to be gradually phased-in over a five year period until 31 December 2024.

Characteristics of the Banking System

Historic lack of consolidation

The UAE may be, and has historically been, seen as being over-banked with 48 banks (comprising 21 locally incorporated banks and 27 foreign banks) licensed to operate inside the UAE as at 30 November 2021 (*source*: UAE Central Bank Statistical Bulletin November 2021), serving a population estimated to be in the region of approximately 9.3 million people as at the end of 2020 (*source*: OPEC Annual Statistical Bulletin 2021). Traditionally there has been little impetus for consolidation, with the federal structure of the UAE encouraging, to some extent, the fragmented nature of the banking sector, with the individual Emirates wishing to retain their own national banks. Rivalries between large local business families and a desire not to dilute shareholdings have also historically hampered the process of consolidation. As a result, during the period between the October 2007 merger of Emirates Bank International P.J.S.C. and National Bank of Dubai P.J.S.C. which created Emirates NBD and 2017 there was very limited merger activity domestically in the sector. However, following the Merger and the acquisition of Noor Bank P.J.S.C by Dubai Islamic Bank P.J.S.C in January 2020, commentators have suggested that the UAE may see more consolidation of the banking sector in order to improve profitability and reduce inefficiencies.

While the anticipated attempts at consolidation would further reduce the level of concentration in the domestic banking sector, they would also likely lead to a significant alteration of the competitive environment with fewer, larger locally incorporated banks competing for the larger financing transactions in the region with the foreign banks, which have tended to have comparatively larger franchises, with greater infrastructure and resources with which to absorb capital costs, such as IT system development.

Going forward, the advent of WTO liberalisation should allow greater competition from foreign banks, both from new entrants to the market and from existing players expanding their operations, which may eventually result in more mergers, with the possibility of creating banks with pan-Gulf franchises.

Domestic focus

The UAE incorporated banks are predominantly focused on the domestic market but a number have small operations overseas and are showing growing interest in cross-border business, a trend which is likely to continue in the event of further merger activity in the sector.

With a large number of banks, competing for a limited number of wholesale lending opportunities, most banks historically turned to retail banking, a previously untapped market. However, increasing competition in this area has gradually eroded margins and encouraged a relaxation of lending criteria. As the market has been tested only to a limited extent under adverse conditions, it is difficult to predict the future likelihood of asset quality problems.

Expansion of retail operations has required heavy investment in distribution channels, particularly ATM networks, kiosks and telephone and internet banking services. As a consequence, IT costs have been a prominent feature of many UAE banks' expenses in addition to employee costs.

Limited foreign ownership

In 1987, the UAE federal government placed a freeze on new foreign banks opening operations in the UAE. At the same time, existing foreign banks were limited to a maximum of eight branches, which restricted their ability to develop any retail potential. However, three banks of GCC state origin, the National Bank of Kuwait, SAMBA and Doha Bank, were awarded licences by the UAE Central Bank following an agreement to permit market access to banks of GCC state origin in line with continuing efforts in regional integration.

During 2002, the Government of Dubai issued a decree establishing the Dubai International Financial Centre (the "**DIFC**"). The DIFC, located in the Emirate of Dubai, is a free trade zone and financial services centre focusing on private banking, asset management, investment banking, re-insurance activities, Islamic finance, securities trading and back office operations. The DIFC has its own civil and commercial laws and has been granted authority to self-legislate in civil and commercial cases. The opening of the DIFC has enabled international banks to establish a presence and compete in the wholesale banking market and this has seen new entities entering the market place.

In 2013, the Government sought to replicate the success of the DIFC by announcing its intention to establish the Abu Dhabi Global Market (the "**ADGM**") in Abu Dhabi, as an international financial free zone with its own legal framework (closely based on English common law). The ADGM became operational in mid-2015 and, as at the date of this Base Prospectus, it remains unclear to what extent this will impact the competitive and regulatory landscape in the domestic banking sector.

Federal Law No. 14 of 2018 (which entered into force with effect from 23 September 2018) (the "**2018 Federal Law**") amended the minimum permissible shareholding by UAE nationals in UAE banks to 60 per cent. As at 31 December 2021, 97 per cent. of the Bank's shares are owned by UAE nationals.

Exposure to the oil sector

With much of the economy directly or indirectly dependent on the oil sector, UAE banks are potentially vulnerable to business erosion during long periods of low oil prices (see "*Risk Factors – Risk Factors relating to the United Arab Emirates – The UAE's economy is highly dependent upon its oil revenue*"). In particular, oil revenues tend to drive levels of liquidity and government infrastructure investment. Gradually, however, private non-oil sectors are gaining ground and the UAE economy is becoming less susceptible to oil price movements.

Islamic banking

Shari'a (Islamic) law forbids the charging of interest on any financial transaction. A number of banks have developed in the Islamic world to serve customers who wish to observe this principle. These institutions offer a range of products which, whilst broadly corresponding with conventional banking transactions, are structured in a way which avoids the application of interest. The UAE is home to numerous institutions offering Islamic banking and financial products. Such institutions include: Dubai Islamic Bank PJSC, Abu Dhabi Islamic Bank PJSC, Emirates Islamic Bank PJSC, Ajman Bank, Sharjah Islamic Bank PJSC, Dubai Islamic Insurance & Reinsurance Company (AMAN), Islamic Arab Insurance Co. (PSC) (Salama), Tamweel and Amlak Finance. In addition, conventional financial institutions often offer *Shari'a*-compliant products. In addition, the majority of local and international conventional financial institutions that operate in the UAE also offer *Shari'a*-compliant products through their Islamic windows. The number of Islamic banks continues to increase, with both new entrants to the market and existing conventional banks recasting themselves as Islamic banks.

Legal environment

There are three primary sources of law in the UAE: (i) federal laws and decrees; (ii) local laws; and (iii) *Shari'a* (Islamic) law. In addition, Emiri decrees can be issued by the Rulers of each of the Emirates which, when issued, have full legal effect and operation in such Emirate. The secondary form of law is trade custom or practice. In the absence of federal legislation on areas specifically reserved to federal authority, the Ruler of a given Emirate or local government will apply his or its own rules, regulations and practices.

Supervision of banks

The main piece of legislation applicable to the banking system is the 2018 Federal Law which repeals Federal Law No. 10 of 1980 concerning the status of the UAE Central Bank. The UAE Central Bank's primary roles are to formulate and implement banking, credit, monetary and fiscal policy and to be responsible for ensuring price and currency stability with free convertibility to foreign currencies. It is also the "bank for banks" within the UAE, although it is not the "lender of last resort". In the event of a bank experiencing financial difficulties or a solvency crisis, rescue funds – such as long-term liquidity or equity support – have historically come from the Emirate in which the institution is based. However, in the event of a run on the currency or a major banking crisis, it is likely that the UAE federal government would ultimately stand as de facto defender of the currency and the "lender of last resort".

The 2018 Federal Law grants the UAE Central Bank powers to:

- draw up and implement monetary policy;
- exercise currency issuance;
- organise licensed financial activities, establish the foundations for carrying them on, and determine the standards required for developing and promoting prudential practices in accordance with the provisions of the 2018 Federal Law and international standards;
- set up appropriate regulations and standards for protection of customers of licensed financial institutions;
- monitor the credit condition in the UAE, in order to contribute to the achievement of balanced growth in the national economy;
- manage foreign reserves to maintain, at all times, sufficient foreign currency assets to cover the monetary base as per the provisions of the 2018 Federal Law; and
- regulate, develop, oversee and maintain soundness of the financial infrastructure systems in the UAE.

Historically, income from overseas investments has been used to fund fiscal deficits, obviating the need for the UAE Central Bank to issue UAE federal government debt. However, the UAE Central Bank does issue Monetary Bills ("**M-Bills**") to UAE banks via auction, denominated in UAE dirhams, in order to absorb excess liquidity rather than to meet a specific funding need. The M-Bills programme was launched in January 2021 to replace UAE Central Bank Certificates of Deposit. The secondary market in M-Bills is currently developing but they can be used as collateral for UAE dirham funding from the UAE Central Bank at any time. The UAE dirham is linked to the International Monetary Fund's Special Drawing Right. However, the U.S. dollar is the intervention currency and, in practice, the UAE dirham is pegged to the U.S. dollar. This pegged exchange rate has been in place since the 1980s and has proved to be resilient both to political tensions in the region and to fluctuations in oil prices. However, see "*Risk Factors – Risk Factors relating to the United Arab Emirates – Foreign exchange movements or any alteration to, or abolition of, the foreign exchange "peg" of the UAE dirham to the U.S. dollar may adversely affect the Bank's profitability*".

The UAE Central Bank is also responsible for regulating financial institutions in relation to money laundering controls and enforcing Federal Law No. 20 of 2018 regarding the procedures for Anti-Money Laundering and Combating the Financing of Terrorism and Illicit Organisations. Pursuant to this, the UAE has established the National Committee to Counter Money Laundering, Combating the Financing of Terrorism and Financing of Illegal Organisations which is responsible for co-ordinating policy and systems on anti-money laundering and the combating of terrorism financing and assessing the effectiveness of such policies and systems and the representation of the UAE in international forums on these matters. Federal Law No. 20 of 2018 also recommends the establishment of an independent "Financial Information Unit" within the UAE Central Bank to receive and investigate reports submitted by financial institutions and corporate entities regarding suspected illicit financial activity.

Although the UAE Central Bank is responsible for regulating all banks, exchange houses, investment companies and other financial institutions in the UAE, the Dubai Financial Services Authority regulates all banking and financial services activities in the DIFC, while the Abu Dhabi Global Market (the "**ADGM**") Financial Services Regulatory Authority regulates activity in the financial services sector in the ADGM. The UAE Central Bank has also been growing in stature as a banking supervisor. However, it is hampered in its role by the level of legal autonomy afforded to the individual Emirates, which at times makes it difficult to enforce directives uniformly across the banking sector.

Lack of developed capital markets

The absence of mature bond or equity markets in the UAE means that banks have often shouldered the burden of long-term financing. This has tended to create a maturity mismatch in their balance sheets, as most of their liabilities are short-term customer deposits. Although the two stock markets, the Dubai Financial Market and the ADX (both of which were established in 2000), have grown over recent years and have benefitted from the inclusion of the UAE in the MSCI Emerging Markets Index since 2014, they continue to experience bouts of volatility.

Nasdaq Dubai (formerly known as the Dubai International Financial Exchange) is a securities exchange located in the DIFC which commenced operations on 26 September 2005. In December 2009, the Dubai Financial Market announced its intention to acquire Nasdaq Dubai, with completion of the acquisition having occurred in July 2010. The Dubai Financial Market and the ADX were upgraded to the MSCI Emerging Markets Index with effect from 1 June 2014 which could lead to an increase in interest and investment from international institutional investors in the UAE.

Government involvement

There is a high degree of state involvement in the UAE banking sector. Most of the larger banks have some degree of government ownership. Privatisation, though advocated in principle, has been slow to manifest in practice. The state and its related entities are together the banking sector's largest customers, in terms of both deposits and project financing.

Expatriate workforce

An unusual feature of the UAE economy is its reliance on overseas labour, with expatriates making up approximately 83.3 per cent. of the workforce (*source*: FCSA Labour Force Survey 2019). The banking sector is no exception to this and expatriates are employed in the senior management of most of the major banks. This has brought expertise from more developed markets to the sector. However, the high level of expatriates in the UAE has been an increasing concern for the UAE federal government and as part of a policy of "Emiratisation", banks were instructed, in 1999, to increase the percentage of UAE nationals on their payroll by at least 4 per cent. per annum. This policy has now been replaced by the UAE Cabinet Decree number 3/10/267 of 2015 dated 25 October 2015 (the "**Emiratisation Circular**"), which has introduced a scoring system which takes into account the employment and progression of Emirati employees in the organisation. The minimum threshold for Emirati employees for each institution is dependent on a number of factors. The Emiratisation Circular does not set any upper limit at which the policy would no longer be applicable. If UAE banks are not able to achieve their targets for recruiting and progressing UAE nationals through their organisation, they will be subject to penalties to be computed in accordance with a specific formula set out in the Emiratisation Circular.

Accounting standards

Since 1 January 1999, all UAE banks have been required to prepare their financial statements in accordance with IFRS (formerly International Accounting Standards (IAS)). Although this has led to a substantial improvement in disclosure standards, there remains some variability in the quality and depth of disclosure across the banking sector.

Structure of the banking system

Banking institutions in the UAE fall into a number of categories. Domestic commercial banks, also known as "national" banks, of which there were 22 as at 30 November 2021 (*source*: UAE Central Bank Statistical Bulletin November 2021), are required to be public shareholding companies with a minimum share capital of AED 40 million and must be majority owned by UAE nationals. Licensed foreign banks, of which there were 27 as at 30 November 2021 (*source*: UAE Central Bank Statistical Bulletin November 2021), need to demonstrate that at least AED 40 million has been allocated as capital funds for their operations in the UAE. "Financial institutions" (institutions whose principal functions are to extend credit, carry out financial transactions, invest in moveable property and other activities, but which are not permitted to accept funds by way of deposits) and financial and monetary intermediaries (money and stockbrokers) may also be licensed to operate within the UAE.

Recent Trends in Banking

Profitability

The performance of the UAE economy is influenced by oil prices, which directly affect fiscal revenues and hence determine the level of investment in government projects in the country. The high oil prices and strong economic conditions experienced in the UAE between 2004 and 2008 allowed UAE banks to expand significantly.

However, much of this growth focused on the real estate sector and equity financing which, in the context of the 2008 global financial crisis, represented a significant risk to the UAE banking system. Equity prices declined generally in the UAE from 2008 to 2011 in response to the global 2008 financial crisis but rebounded between 2012 and 2020, with the ADX's General Index increasing from 2,630.9 at 31 December 2012 to 5,045.3 at 31 December 2020, and the Dubai Financial Market index increasing from 1,662.5 at 31 December 2012 to 2,492.0 at 31 December 2020 (*source*: Bloomberg).

Liquidity

The UAE Central Bank closely monitors the level of liquidity in the banking system. It also requires that banks have in place adequate systems and controls to manage their liquidity positions, as well as contingency funding plans to cope with periods of liquidity stress.

Banks must also adhere to a maximum loan to deposit ratio of 100 per cent. set by the UAE Central Bank. In this context, loans comprise loans and advances to customers and interbank assets maturing after three months.

UAE banks are mostly funded through on demand or time-based customer deposits made by private individuals or private sector companies. According to data made available by the UAE Central Bank, together, demand and time deposits constituted approximately 84.9 per cent. of total resident and non-resident deposits (excluding government deposits, commercial prepayments and borrowings under repurchase agreements) while resident and non-resident government deposits (including GRE deposits) and non-banking financial institutions constituted approximately 28.5 per cent. and 6.9 per cent., respectively, of total deposits of the UAE banking sector (excluding inter-bank deposits and bank drafts but including commercial prepayments and borrowings under repurchase agreements) as at 30 September 2021. Non-resident sources constituted approximately 12.5 per cent. of total deposits within the UAE banking sector (excluding inter-bank deposits and bank drafts but including commercial prepayments and borrowings under repurchase agreements) as at the same date (*source*: UAE Central Bank Statistical Bulletin September 2021).

In response to the global 2008 financial crisis, the UAE Central Bank announced a number of measures aimed at ensuring that adequate liquidity is available to banks operating in the UAE. In September 2008, the UAE Central Bank established an AED 50 billion liquidity facility which banks could draw upon subject to posting eligible debt securities as collateral. The liquidity facility was available only for the purpose of funding existing commitments. New lending was required to be based on growth in the customer deposit base.

In addition to these measures, the UAE federal government also provided AED 50 billion in deposits to UAE banks (as part of a larger AED 70 billion package) which, at the option of the banks, can be converted into Tier 2 capital in order to enhance capital adequacy ratios. A number of banks in the UAE exercised this option and converted the UAE federal government deposits made with them into Tier 2 capital.

In line with Basel III requirements, the UAE Central Bank has issued the UAE Central Bank Notice No. 33/2015 on liquidity requirements (which was issued by the UAE Central Bank on 27 May 2015 and which entered into force with effect from 1 July 2015) (the "**Liquidity Notice**") and which includes a set of qualitative and quantitative liquidity requirements for UAE banks. The qualitative requirements set out in the Liquidity Notice elaborate on the responsibilities of a UAE bank's board of directors and senior management as well as the overall liquidity risk framework. The new regulations are intended to ensure that liquidity risks are well managed at banks operating in the UAE and are in line with the Basel Committee's recommendations and international best practices. These requirements include the following:

Responsibilities of the board of directors:

- to bear ultimate responsibility for liquidity risk management within the relevant UAE bank;
- to be familiar with liquidity risk management with at least one board member having a detailed understanding of liquidity risk management; and
- to enable the clear articulation of liquidity risk tolerance in line with the relevant UAE bank's objectives, strategy and risk appetite.

Responsibilities of senior management:

- to develop strategies, policies and practices to manage liquidity risk in accordance with the liquidity risk tolerance set by the board of directors;
- to review the UAE bank's strategy and to report to the board of directors on regulatory compliance on a regular basis; and
- to manage liquidity risk in a prudent manner using all available liquidity risk management tools.

Liquidity risk framework:

The Liquidity Notice requires each UAE bank to have a robust liquidity risk framework which comprises the following elements:

- sound processes and systems to identify, measure, monitor and control liquidity risk in a timely and accurate manner;
- a robust liquidity risk management framework (which must be shared with the UAE Central Bank upon request) with limits, warning indicators, communication and escalation procedures;
- regular internal stress testing of the portfolio for a variety of scenarios (both institution specific and market-wide), results being communicated to the board of directors and the UAE Central Bank on request;
- incorporation of liquidity costs, benefits and risks into product pricing and approval processes;
- establishment of a forward-looking funding strategy with effective diversification of funding sources and tenors;
- setting of formal contingency funding plans which clearly set out strategies for addressing liquidity shortfalls in emergency situations (and which must be shared with the UAE Central Bank upon request);

- establishment of an adequate cushion of unencumbered, highly liquid assets as insurance against a range of liquidity stress scenarios; and

- a transfer pricing framework (which is commensurate with the bank's liquidity risk tolerance and complexity) developed to reflect the actual cost of funding.

The quantitative requirements set out in the Liquidity Notice are intended to ensure that each UAE bank holds a minimum level of liquid assets which allow it to sustain a short-term liquidity stress (in circumstances both specific to that bank and market wide) as per the below.

	Ratio	Applicability Period
Basel III ratios.....................	LCR (LCR > = 100%)	1 January 2019 onwards
	NSFR (NSFR > = 100%)	1 January 2018 onwards

The LCR represents a 30 days stress scenario with combined assumptions covering both bank specific and market wide stresses. These assumptions are applied to contractual data representing the main liquidity risk drivers at banks to determine cash outflows within the 30 days stress scenario. The LCR requires that UAE banks should always be able to cover the net cash outflow with HQLAs at the minimum LCR determined by the UAE Central Bank. The Basel III accord requires that this minimum is 100 per cent, however, under the temporary relief measures provided by the UAE Central Bank under the TESS, the regulatory LCR limit has been decreased from 100 per cent. to 70 per cent. until 30 June 2022. The Liquidity Notice describes in detail eligible HQLAs for this purpose. See "*Risk Factors – Risks related to the Bank's business activities and industry – Liquidity Risk*" and "*Description of the Bank – Liquidity Risk Management*" for more information.

NSFR is a structural ratio that aims to ensure that banks have adequate stable funding to fund the assets on their balance sheets. It also requires an amount of stable funding to cover a portion of the relevant UAE banks contingent liabilities. The NSFR in the UAE mirrors the Basel III standards. The NSFR identifies the key uses of funds and the different types of funding sources used by the UAE banks. It assigns available stable funding ("**ASF**") factors to the sources of funds and required stable funding ("**RSF**") (usage) factors to asset classes and off-balance sheet contingent exposures. The assigned ASF factor depends on the terms of funding and the perceived stability of the funding sources. The assigned RSF factor will depend on the liquidity of the asset being funded under a market-wide stress. Both factors will follow the Basel III standards. The NSFR minimum is 100 per cent, however, under temporary relief measures provided by the UAE Central Bank under the TESS, the regulatory NSFR limit has been decreased from 100 per cent. to 90 per cent. until 30 June 2022.

Interim Marginal Lending Facility

On 15 April 2014, the UAE Central Bank introduced the IMLF which allows non-Islamic UAE banks to use certain rated or UAE federal government, local government or government entity-issued assets to access UAE Central Bank liquidity overnight in order to help their liquidity management during times of market stress.

The IMLF allows lenders to use certain assets as collateral to obtain one-day overnight loans from the UAE Central Bank. Eligible assets that can be used as collateral must be tradeable and include bonds, sukuk and securities issued by the UAE federal government, local government or government-related entities in individual Emirates, as well as by UAE banks and corporations. Securities issued by foreign governments, banks, corporates and supranational agencies can also be used as collateral, but must carry a minimum 'A' credit rating from one of the three main international rating agencies. Banks accessing the IMLF must borrow a minimum of AED 10 million. In order to contain the impact of COVID-19, the UAE Central Bank has reduced the cost of borrowing under IMLF to 50 basis points (from 100 basis points) over the official UAE base rate.

Position of depositors

There is no formal deposit protection scheme in the UAE. While no bank has, so far, been permitted to fail, during the 1980s and early 1990s a number were restructured by the relevant government authorities. In October 2008, in response to the global financial crisis, the UAE federal government announced that it intended to guarantee the deposits of all UAE banks and foreign banks with core operations in the UAE. Following therefrom, in May 2009 the UAE's National Federal Council approved a draft law guaranteeing federal deposits. However, until such time as the law is passed, there is no guaranteed government support.

Prudential regulations

The UAE Central Bank has supervisory responsibility for banking institutions in the UAE. Supervision is carried out through on-site inspections and review of periodic submissions from the banks. The frequency of inspection depends on the perceived risk of the bank, but inspections are carried out in all banks at least once every 18 months. Prudential returns are made monthly, quarterly, semi-annually or annually, depending on the nature of the information they contain. An improved risk management framework has been implemented, aimed at providing the UAE Central Bank with more up to date information on credit, market and operational risks within the banking sector.

Capital adequacy

All banks are required to follow the principles of the Basel accord in calculating their capital adequacy ratios. Basel II was introduced effective 17 November 2009 by way of UAE Central Bank Circular Number 27/2009. Since 1993, the UAE Central Bank had imposed a 10 per cent. minimum total capital ratio on all UAE banks. In a circular dated 30 August 2009, the UAE Central Bank announced amendments to its capital adequacy requirements, such that UAE banks were required to have a total capital adequacy ratio of at least 11 per cent., with a Tier 1 ratio of not less than 7 per cent., by 30 September 2009. Furthermore, the UAE Central Bank required banks operating in the UAE to increase their Tier 1 capital adequacy ratio to at least 8 per cent., with a minimum total capital adequacy ratio of at least 12 per cent., by 30 June 2010. Thereafter, through its circular dated 17 November 2009 introducing Basel II, the UAE Central Bank stated that it was expected that the main banks in the UAE would move to the Foundation Internal Rating Based approach under Basel II in due course. Through this circular, the UAE Central Bank reiterated that all banks operating in the UAE were required to maintain a minimum capital adequacy ratio of 11 per cent. at all times, increasing to 12 per cent. by 30 June 2010 and also laid out its expectations in relation to Pillar II and Pillar III of the Basel II framework. Profits for the current period, goodwill, other intangibles, unrealised gains on investments and any shortfall in loan loss provisions were deducted from regulatory capital.

As at the date of this Base Prospectus, the UAE Central Bank has adopted a policy of a gradual, phased introduction of the Basel III Reforms. As part of this gradual introduction of Basel III in the UAE, and pursuant to the February 2017 Regulations and the Capital Standards, the Bank is required by the UAE Central Bank to maintain a minimum total capital adequacy ratio of 13 per cent., effective from 1 January 2019.

Whilst the calculation of capital adequacy ratios in the UAE follows the Bank of International Settlements guidelines, claims on or guaranteed by GCC central governments and central banks denominated in their respective domestic currencies are risk-weighted at zero per cent. and claims on GCC government non-commercial public sector entities are risk-weighted at zero to 20 per cent. Under the 2018 Federal Law, the UAE Central Bank may determine reserve requirements for UAE banks. All dividends paid by UAE banks have to be authorised in advance by the UAE Central Bank.

The Basel Committee has put forward a number of fundamental reforms to the regulatory capital framework for internationally active banks. On 16 December 2010 and on 13 January 2011, the Basel Committee issued the Basel III Reforms, constituting guidance on the eligibility criteria for Tier 1 and Tier 2 capital instruments as part of a package of new capital and liquidity requirements intended to reinforce capital standards and to establish minimum liquidity standards for credit institutions. The implementation of the Basel III reforms began on 1 January 2013. However, the requirements are subject to a series of transitional arrangements and will be phased in over a period of time. The Basel Committee's January 2011 Press Release included an additional Basel III requirement as follows:

"*The terms and conditions of all non-common Tier 1 and Tier 2 instruments issued by an internationally active bank must have a provision that requires such instruments, at the option of the relevant authority, to either be written off or converted into common equity upon the occurrence of the trigger event unless:*

(a) *the governing jurisdiction of the bank has in place laws that:*

    (i) *require such Tier 1 and Tier 2 instruments to be written off upon such event; or*

    (ii) *otherwise require such instruments to fully absorb losses before tax payers are exposed to loss;*

(b) *a peer group review confirms that the jurisdiction conforms with clause (a); and*

(c) *it is disclosed by the relevant regulator and by the issuing bank, in issuance documents going forward, that such instruments are subject to loss under clause (a).*

The trigger event is the earlier of: (1) a decision that a write-off, without which the firm would become non-viable, is necessary, as determined by the relevant authority; and (2) the decision to make a public sector injection of capital, or equivalent support, without which the firm would have become non-viable, as determined by the relevant authority."

The January 2011 Press Release states that instruments issued after 1 January 2013 must meet the Non-Viability Requirement in order to be recognised as Tier 1 or Tier 2 instruments for regulatory capital purposes. The recognition of instruments issued before 1 January 2013 which do not meet these requirements will be phased out from 1 January 2013.

The February 2017 Regulations and the Accompanying Standards confirm that the Non-Viability Requirement is a pre-requisite for any capital instruments issued by UAE banks to achieve Regulatory Capital (as defined below) classification from the UAE Central Bank. The Non-Viability Requirement must be provided for contractually in the absence of a statutory loss absorption framework in the UAE as at the date of this Base Prospectus.

In May 2016, the UAE Central Bank published the Consultation Document entitled "*Capital Adequacy Regulation*", detailing the Basel III requirements expected to be followed by banks operating in the UAE, once the applicable legislation has been implemented in the UAE. In particular, the Consultation Document outlines the general quantitative requirements expected to be followed by UAE banks, with regards to Regulatory Capital. It also outlines, amongst other things, the Regulatory Capital ratios that UAE banks will be expected to follow and adhere to, the individual UAE bank minimum capital conservation standards and the required disclosure standards expected to be made available by UAE banks with respect to Regulatory Capital.

On 23 February 2017, the UAE Central Bank published the February 2017 Regulations in the Official Gazette issue 612, which were effective from 1 February 2017. The February 2017 Regulations are intended to ensure that the capital adequacy of all banks operating in the UAE is in line with the Basel III requirements, whilst implementing the measures contained in the Consultation Document. The February 2017 Regulations are supported by the Accompanying Standards entitled "*Standards for Capital Adequacy of Banks in the UAE*" which were published by the UAE Central Bank on 12 November 2020. The Accompanying Standards elaborate on the supervisory expectations of the UAE Central Bank with respect to the relevant Basel III capital adequacy requirements. In addition, a bank may also be subject to additional capital add-on requirements following a supervisory review and evaluation process of the UAE Central Bank (see "*Risk Factors – Risk Factors relating to the United Arab Emirates – Changes to the Basel regulatory framework as implemented in the UAE may have an effect on Subordinated Notes*").

Reserve requirements

Reserve requirements are used by the UAE Central Bank as a means of prudential supervision and to control credit expansion. The reserve requirements are 1 per cent. for term deposits and 14 per cent. for all other customer balances. As part of the temporary relief measures provided by the UAE Central Bank under the TESS, the reserve requirement for banks to maintain 14 per cent. of customer deposits other than term deposits with the UAE Central Bank has been reduced to 7 per cent.

Credit controls

Banks are required by the UAE Central Bank to establish credit policies and procedures commensurate with their size and activities. They must also have a proper credit assessment and approval process and adequate controls in place to monitor credit concentrations to, among others, individual borrowers, economic sectors and foreign countries.

The UAE Central Bank circular dated 23 February 2011 on retail banking and Notice No. 31/2013 dated 28 October 2013 (which was published in the Official Gazette on 28 November 2013 and entered into force on 28 December 2013) (the "**Mortgage Regulations**"), introduced regulations regarding bank loans and other services offered to individual customers. These regulations, among other things, impose maximum loan/income and loan to value ratios for retail products. For example, the regulations require that the amount of any personal consumer loan shall not exceed 20 times the salary or total income of the borrower with the repayment period not exceeding 48 months. Additionally, the Mortgage Regulations specify that the amount of mortgage loans for non-UAE nationals should not exceed 75 per cent. of the property value for a first purchase of a home (with a value of less than or equal to AED 5 million), 65 per cent. of the property value for a first purchase of a home (with a value greater than AED 5 million) and 60 per cent. of the property value (irrespective of the value of the property) for second and subsequent homes. For UAE nationals, the corresponding limits are set at 80 per cent. in respect of a first purchase of a home with a value less than or equal to AED 5 million, 70 per cent. for a first home with a value greater than AED 5 million and 65 per cent. of the property value for a second or subsequent purchase (irrespective of the value of the property).

Large exposures

The UAE Central Bank defines large exposures as any funded or unfunded exposures (less provisions, cash collaterals and deposits under lien) to a single borrower or group of related borrowers exceeding prescribed limits.

On 11 November 2013, the UAE Central Bank published Central Bank Notice No. 32/2013 on large exposures (the "**Large Exposure Notice**") introducing limits of 100 per cent. of the bank's capital base for all lending to UAE local governments and their non-commercial entities, together with a 25 per cent. limit to any single such non-commercial entity. Exposures above these limits are subject to approval by the UAE Central Bank. Set out below is a table showing a summary of the limits introduced by the Large Exposure Notice (defined as a percentage of the bank's capital base calculated under Basel II):

	Cap as percentage of capital base	
	Aggregate percentage	**Individual percentage**
UAE federal government......................................	Not applicable	Not applicable
UAE local governments and their non-commercial entities	100%	No cap for UAE local governments; 25% for each non-commercial entity
Commercial entities of UAE federal government and UAE local governments................................	100%	25%
A single borrower or a group of related borrowers	Not applicable	25%
Shareholders who own 5 per cent. or more of the bank's capital and their related entities	50%	20%
Domestic interbank exposures (over one year).....	Not applicable	30%
Overseas interbank exposures	Not applicable	30%
Bank's subsidiaries and affiliates..........................	25%	10%
Board members	25%	5%
Bank's employees...	3%	Maximum 20 month's salary
Bank's external auditors, consultants and lawyers	Not allowed	Not allowed

Provisions for loan losses

For UAE banks, IFRS 9 was introduced for financial reporting periods commencing on 1 January 2018, replacing IAS 39 and introducing an expected credit loss ("**ECL**") model for the measurement of the impairment of financial assets, such that it is no longer necessary for a credit event to have occurred before a credit loss is recognised. The guiding principle of the ECL model is to reflect the general pattern of deterioration or improvement in the credit quality of financial instruments. IFRS 9 provision uses a three stage approach in recognising increased credit risk at each stage of risk (i.e., Stage 1 for current facilities, Stage 2 for significant increase in credit risk and Stage 3 for impaired loans).

On 27 March 2020, the IASB issued a guidance note, advising that both the assessment of a significant increase in credit risk and the measurement of ECLs are required to be based on reasonable and supportable information that is available to an entity without undue cost or effort. In assessing forecast conditions, consideration should be given both to the effects of COVID-19 and the significant government support measures being undertaken.

Banks in the UAE generally do not write off non-performing loans from their books until all legal avenues of recovery have been exhausted. This factor tends to inflate the level of impaired loans and advances to customers and/or financings carried on the balance sheets of UAE banks when compared to banks operating in other economies.

As noted above in "*The United Arab Emirates Banking System and Prudential Regulation – COVID-19*", under the TESS, the IFRS 9 staging and classification of loans of customers that are Stage 1 and are receiving relief is expected to remain unchanged during the period of the scheme and not downgraded. In addition, a part of the UAE Central Bank's stimulus package in response to COVID-19, banks are able to apply a prudential filter to IFRS 9 expected loss provisions. The prudential filter will allow any increase in IFRS 9 provisioning compared to 31 December 2019 to be partially added back to regulatory capital. This will allow IFRS 9 provisions to be gradually phased-in over a five year period until 31 December 2024.

Establishing a credit bureau in the UAE

Al Etihad Credit Bureau ("**AECB**") is a federal government company specialised in providing UAE-based credit reports and other financial information. AECB commenced operations in 2014 upon receiving formal approval from the UAE Cabinet of its regulations and its charges for producing credit reports. AECB has approached all UAE-based banks to sign data sharing agreements to enable the provision of customer credit information, with the majority having entered into such agreements and/or made successful initial data submissions to AECB by the time AECB commenced operations. As at the date of this Base Prospectus, the Bank has entered into a data and credit information supply agreement with AECB.

The implementation of regulations for the sharing of credit report data and the commercial operation of the UAE's first credit bureau is expected to reduce the risk involved in the origination of customer lending and banking business generally.

Shari'a compliance

The UAE law requires financial institutions licensed by the UAE Central Bank to operate their Islamic banking business activities in compliance with the rules, standards and general principles established by the Higher *Shari'a* Authority and, in certain circumstances, requires such financial institutions to obtain the consent of the Higher *Shari'a* Authority before undertaking certain licensed financial activities.

Corporate governance

Banks in the UAE are subject to the Corporate Governance Regulations and the Corporate Governance Standards which were issued by the UAE Central Bank in 2019 with a view to ensuring banks have a comprehensive approach to corporate governance.

TAXATION

The tax laws of the investor's state and of the Bank's state of incorporation might have an impact on the income received from the securities. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries.

The following is an overview of certain UAE and European tax considerations withholding tax considerations relating to the Notes. It does not purport to be a complete analysis of all tax considerations relating to the Notes, whether in those jurisdictions or elsewhere. Prospective purchasers of Notes should consult their own tax advisers as to which countries' tax laws could be relevant to acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the Notes and the consequences of such actions under the tax laws of those countries. This overview is based upon the law as in effect on the date of this Base Prospectus and is subject to any change in law that may take effect after such date.

Dubai and the United Arab Emirates

The following is a general overview of the current tax law and practice in Dubai and the UAE (to the extent applicable in Dubai) ("**Dubai Law**") and does not constitute legal or tax advice. Prospective investors in the Notes are advised to consult their own tax advisers with respect to the tax consequences under the tax laws of the country in which they are resident, of the purchase, ownership or disposition of the Notes or any interest therein.

There are currently no withholding taxes required to be levied under UAE, Abu Dhabi or Dubai law in respect of payments on debt securities (including in relation to the Notes). Further to the announcement of CIT on 31 January 2022, the UAE Ministry of Finance announced the introduction of a corporate income tax on business profits, which will come into effect on 1 June 2023. The UAE Ministry of Finance has also announced that no withholding will apply in relation to this tax. See further "*Risk Factors - Tax changes in the UAE may have an adverse effect on the Bank*". In the event of the imposition of any withholding in future, the Bank has undertaken to gross-up any payments subject to certain limitations, as described in Condition 11 (*Taxation*).

The Constitution of the UAE specifically reserves to the Federal Government of the UAE the right to revise taxes on a federal basis for the purposes of funding its budget. It is not known whether this right will be exercised in the future.

The UAE has entered into double taxation arrangements with certain countries, but these are not extensive in number.

The Proposed Financial Transactions Tax (the "FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**"), for a directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since ceased to participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. The issuance and subscription of Notes should, however, be exempt.

Under the Commission's Proposal, the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in any Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including: (i) by transacting with a person established in a participating Member State; or (ii) where the financial instrument which is subject to the dealings is issued in a participating Member State.

However, the FTT proposal remains subject to negotiation between participating Member States. It may therefore be altered prior to any implementation, the timing of which remains unclear. Additional Member States may decide to participate.

Prospective holders of any Notes are advised to seek their own professional advice in relation to the FTT.

Foreign Account Tax Compliance Act

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a foreign financial institution (as defined by FATCA) may be required to withhold on certain payments it makes ("**foreign passthru payments**") to persons that fail to meet certain certification, reporting or related requirements. The Bank is a foreign financial institution for these purposes. A number of jurisdictions (including the jurisdiction of the Bank) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("**IGAs**"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as Notes, such withholding would not apply to Notes characterised as debt (or which are not otherwise characterised as equity and have a fixed term) for U.S. federal income tax purposes that are issued on or prior to the date that is six months after the date on which final regulations defining foreign passthru payments are filed with the U.S. Federal Register as such Notes generally would be grandfathered for purposes of FATCA withholding unless materially modified after such date (including by reason of a substitution of the issuer). However, if additional Notes (as described under "*Terms and Conditions of the Notes — Further Issues*") that are not distinguishable from previously issued Notes are issued after the expiration of the grandfathering period and are subject to withholding under FATCA, then withholding agents may treat all Notes, including the Notes offered prior to the expiration of the grandfathering period, as subject to withholding under FATCA. Holders should consult their own tax advisers regarding how these rules may apply to their investment in Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

FATCA is particularly complex and its application is uncertain at this time. The above description is based in part on regulations, official guidance and model IGAs, all of which are subject to change or may be implemented in a materially different form. Prospective investors should consult their tax advisers on how these rules may apply to the Bank and to payments they may receive in connection with the Notes.

SUBSCRIPTION AND SALE

Merrill Lynch International, BNP Paribas, Citigroup Global Markets Limited, Commerzbank Aktiengesellschaft, Deutsche Bank AG, London Branch, J.P. Morgan Securities plc, Mashreqbank psc, Mizuho International plc, Nomura International plc, Société Générale and UBS AG London Branch (the "**Dealers**") have, pursuant to an amended and restated dealership agreement dated 1 March 2022 (the "**Dealership Agreement**"), agreed with the Bank a basis upon which the Bank may agree to sell and they or any of them may from time to time agree to purchase Notes. Any such agreement will extend to those matters stated under "*Form of the Notes*" and "*Terms and Conditions of the Notes*". In the Dealership Agreement, the Bank has agreed to reimburse the Dealers for certain of their expenses in connection with update of the Programme and the issue of Notes under the Programme and to indemnify the Dealers against certain liabilities incurred by them in connection therewith. The Dealership Agreement makes provision for the resignation or termination of appointment of existing Dealers and for the appointment of additional or other Dealers either generally in respect of the Programme or in relation to a particular Tranche of Notes.

General

Each Dealer has agreed and each further Dealer appointed under the Programme will be required to agree that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Notes or possesses or distributes this Base Prospectus and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Notes under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and neither the Bank nor any of the other Dealers shall have any responsibility therefor.

The Bank and the Dealers do not represent that this Base Prospectus may be lawfully distributed, or that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, and the Bank and the Dealers do not assume any responsibility for facilitating any such distribution or offering.

With regard to each Tranche, the relevant Dealer will be required to comply with such other restrictions as the Bank and the relevant Dealer shall agree and as shall be set out in the relevant Final Terms.

With regard to each Tranche of Exempt Notes or Notes which are the subject of a Pricing Supplement, the relevant Dealer will be required to comply with such other additional restrictions as the Bank and the relevant Dealer shall agree and as shall be set out in the applicable Pricing Supplement.

United States of America

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from the registration requirements of the Securities Act. Terms used in this paragraph have the meaning given to them by Regulation S.

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and sold any Notes, and will not offer and sell any Notes (a) as part of their distribution at any time and (b) otherwise until 40 days after the completion of the distribution of all Notes of the Series of which such Notes are a part, except in accordance with Rule 903 of Regulation S under the Securities Act.

Each Dealer has also agreed that, at or prior to confirmation of sale of Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The Securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (i) as part of their distribution at any time or (ii) otherwise until 40 days after the completion of the distribution of the Securities as determined and certified by the relevant Dealer, in the case of a non-syndicated issue, or the Lead Manager, in the case of a syndicated issue, and except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S."

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it, its affiliates or any persons acting on its or their behalf have not engaged and will not engage in any directed selling efforts with respect to any Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S.

The Notes are subject to U.S. tax law requirements and may not be offered, sold or delivered within the United States or its possessions or to a United States person, except in certain transactions permitted by U.S. Treasury regulations. Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended and regulations thereunder.

In respect of Notes where TEFRA D is specified in the relevant Final Terms the relevant Dealer will be required to represent and agree that:

(a) except to the extent permitted under U.S. Treasury Regulations Section 1.163-5(c)(2)(i)(D) (or any successor United States Treasury Regulation section including, without limitation, substantially identical successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010) (the "**D Rules**"), (i) it has not offered or sold, and during the restricted period it will not offer or sell, Notes to a person who is within the United States or its possessions or to a United States person, and (ii) it has not delivered and it will not deliver within the United States or its possessions definitive Notes that are sold during the restricted period;

(b) it has and throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by the D Rules;

(c) if it is a United States person, it is acquiring Notes for purposes of resale in connection with their original issuance and if it retains Notes for its own account, it will only do so in accordance with the requirements of U.S. Treasury Regulations Section 1.163-5I(2)(i)(D)(6) (or any successor United States Treasury Regulation section including, without limitation, substantially identical successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010);

(d) with respect to each affiliate that acquires Notes from it for the purpose of offering or selling such Notes during the restricted period, it repeats and confirms the representations and agreements contained in sub-paragraphs (a), (b) and (c) above on such affiliate's behalf; and

(e) it will obtain from any distributor (within the meaning of U.S. Treasury Regulations Section 1.163-5I(2)(i)(D)(4)(ii) (or any successor United States Treasury Regulation section including, without limitation, substantially identical successor regulations issued in accordance with U.S. Internal Revenue Service Notice 2012-20 or otherwise in connection with the U.S. Hiring Incentives to Restore Employment Act of 2010)) that purchases any Notes from it pursuant to a written contract with such Dealer (other than a distributor that is one of its affiliates or is another Dealer), for the benefit of the relevant Issuer and each other Dealer, the representations contained in, and such distributor's agreement to comply with, the provisions of sub-paragraphs (a), (b), (c) and (d) above of this paragraph (e) insofar as they relate to the D Rules, as if such distributor were a Dealer hereunder.

Terms used in this paragraph have the meanings given to them by the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder, including the D Rules.

In respect of Notes where TEFRA C is specified in the relevant Final Terms, the relevant Dealer will be required to represent and agree that:

(a) it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, any Notes within the United States or its possessions in connection with the original issuance of the Notes; and

(b) in connection with the original issuance of the Notes it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such prospective purchaser is within the United States or its possessions and will not otherwise involve the United States office of such Dealer in the offer and sale of the Notes.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any Dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

Prohibition of Sales to EEA Retail Investors

If the Final Terms in respect of any Notes includes a legend entitled "Prohibition of Sales to EEA Retail Investors", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(a) a retail client as defined in point (11) of Article 4(1) of EU MiFID II; or

(b) a customer within the meaning of the Insurance Distribution Directive, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II.

United Kingdom

Prohibition of sales to UK Retail Investors

If the Final Terms in respect of any Notes incudes the legend entitled "Prohibition of Sales to UK Retail Investors", each Dealer has represented, warranted and agreed, and each further Dealer appointed under the Programme will be required to represent, warrant and agree, that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by this Base Prospectus as completed by the Final Terms in relation thereto to any retail investor in the UK. For the purposes of this provision, the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA.

Other UK regulatory restrictions

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Bank;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Bank; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Notes in, from or otherwise involving the UK.

Japan

The Notes have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948), as amended (the "**FIEA**"). Accordingly, each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Notes in Japan or to, or for the benefit of, a resident of Japan or to others for re-offering or resale, directly or indirectly, in Japan or to any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and other relevant laws and regulations of Japan. As used in this paragraph, "**resident of Japan**" means any person resident in Japan, including any corporation or other entity organised under the laws of Japan.

The People's Republic of China

Each of the Dealers has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that neither it nor any of its affiliates has offered or sold or will offer or sell any of the Notes in the PRC (excluding the Hong Kong Special Administrative Region of the PRC, the Macau Special Administrative Region of the PRC and Taiwan) as part of the initial distribution of the Notes. The Notes and any material of information contained or incorporated by reference herein relating to the Notes have not been, and will not be, submitted to or approved/verified by or registered with the China Securities Regulatory Commission ("**CSRC**") or other relevant governmental and regulatory authorities in the PRC pursuant to relevant laws and regulations and thus may not be supplied to the public in the PRC or used in connection with any offer for the subscription or sale of the Notes in the PRC. Any material or information contained or incorporated by reference herein relating to Notes will not be constituted an offer to sell or the solicitation of an offer to buy any securities in the PRC.

The Notes may only be invested by PRC investors that are authorised to engage in the investment in the Notes of the type being offered or sold. PRC investors are responsible for informing themselves about and observing all legal and regulatory restrictions, obtaining all relevant government regulatory approvals/licenses, verification and/or registrations themselves, including, but not limited to, any which may be required from the PRC, the State Administration of Foreign Exchange, CSRC, the China Banking and Insurance Regulatory Commission and other relevant regulatory bodies, and complying with all relevant PRC regulations, including, but not limited to, all relevant foreign exchange regulations and/or overseas investment regulations.

Republic of Italy

The offering of the Notes has not been registered with the *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") pursuant to Italian securities legislation. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy will be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulation.

Any such offer, sale or delivery of the Notes or distribution of copies of this Base Prospectus or any other document relating to the Notes in the Republic of Italy must be:

(i) made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 58 of 24 February 1998, CONSOB Regulation No. 20307 of 15 February 2018 and Legislative Decree No. 385 of 1 September 1993 (in each case as amended from time to time) and any other applicable laws and regulations;

(ii) in compliance with Article 129 of Legislative Decree No. 385 of 1 September 1993, as amended, pursuant to which the Bank of Italy may request information on the issue or the offer of securities in the Republic of Italy and the relevant implementing guidelines of the Bank of Italy issued on 25 August 2015 (as amended on 10 August 2016); and

(iii) in compliance with any other applicable laws and regulations or requirement imposed by CONSOB or any other Italian authority.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that the Notes to be issued under the Programme have not been and will not be offered, sold or publicly promoted or advertised by it in the UAE other than in compliance with any laws applicable in the UAE governing the issue, offering and sale of securities.

Dubai International Financial Centre

Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that it has not offered and will not offer the Notes to be issued under the Programme to any person in the Dubai International Financial Centre unless such offer is:

(a) an "Exempt Offer" in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority (the "**DFSA**") rulebook; and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.3 of the DFSA Conduct of Business Module of the DFSA rulebook.

Singapore

Each Dealer has acknowledged, and each further Dealer appointed under the Programme will be required to acknowledge, that this Base Prospectus has not been and will not be registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Dealer has represented and agreed that, and each further Dealer appointed under the Programme will be required to represent and agree that, it has not offered or sold any Notes or caused the Notes to be made the subject of an invitation for subscription or purchase and will not offer or sell any Notes or cause the Notes to be made the subject of an invitation for subscription or purchase and has not circulated or distributed, nor will it circulate or distribute, this Base Prospectus or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Notes, whether directly or indirectly, to any person in Singapore other than: (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore, as modified or amended from time to time) (the "**SFA**")) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Notes pursuant to an offer made under Section 275 of the SFA except: (1) to an institutional investor or to a relevant person defined, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; (2) where no consideration is or will be given for the transfer; (3) where the transfer is by operation of law; (4) as specified in Section 276(7) of the SFA; or (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Notification under Section 309B(1) of the SFA – Unless otherwise stated in the relevant Final Terms, all Notes issued or to be issued under the Programme shall be prescribed capital markets products (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).

Kingdom of Saudi Arabia

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Notes. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Notes pursuant to an offering should note that the offer of Notes is a private placement under Article 9 or Article 10 of, or as otherwise required or permitted by, the "Rules on the Offer of Securities and Continuing Obligations" as issued by the Board of the Capital Market Authority resolution number 3-123-2017 dated 27 December 2017, as amended (the "**KSA Regulations**"), made through an authorised person licensed to carry on the securities activity of arranging in accordance with the KSA Regulations.

The Notes may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 9 of the KSA Regulations or by way of a limited offer under Article 10 of the KSA Regulations. Each Dealer has represented and agreed, and each further Dealer appointed under the Programme will be required to represent and agree, that any offer of Notes made by it to a Saudi Investor will be made in compliance with the KSA Regulations.

Each offer of Notes shall not therefore constitute a "public offer", an "exempt offer" or a "parallel market offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under the KSA Regulations. Any Saudi Investor who has acquired Notes pursuant to a private placement under the KSA Regulations may not offer or sell those Notes to any person unless the offer or sale is or sale is otherwise in compliance with the KSA Regulations.

GENERAL INFORMATION

1. **Registered Office**

The Bank's registered office is located at Mashreqbank Global Headquarters, Al Umniyati Street, Burj Khalifa Community, P.O. Box 1250, Dubai, United Arab Emirates, telephone number +971 4 222 333. The Bank's Commercial License Number is 208990 and its Commercial Registration Number is 40903.

2. **Bank Website**

The Bank's website is https://www.mashreqbank.com. Information contained on the website does not form part of this prospectus.

3. **Legal Entity Identifier**

The legal entity identifier (LEI) code of the Bank is: 5493000SA3K24EQKA103.

4. **Authorisation**

The establishment of the Programme and the general terms of the issue of Notes thereunder were duly authorised by a resolution of the Board of Directors of the Bank dated 28 January 2004 and by a resolution of the shareholders of the Bank adopted at an extraordinary general meeting of the shareholders held on 27 January 2004. The increase in the maximum aggregate nominal amount of the Notes that may be outstanding under the Programme from U.S.$750 million to U.S.$2 billion and the issue and sale of Notes pursuant thereto was authorised by a resolution of the shareholders of the Bank adopted at an ordinary general meeting of the shareholders held on 8 March 2006 and by a resolution of the Board of Directors of the Bank dated 3 April 2006. The increase in the maximum aggregate nominal amount of the Notes that may be outstanding under the Programme from U.S.$2 billion to U.S.$5 billion was authorised by a resolution of the shareholders of the Bank adopted at an ordinary general meeting of the shareholders held on 7 March 2010. Each issue of Notes under the Programme is subject to the approval of the Board of Directors of the Bank and must be authorised by a resolution of the Board of Directors of the Bank.

The Bank has given all notices and obtained all necessary consents, approvals, registrations, authorisations or other orders of regulatory authorities required under the laws and regulations of the UAE in connection with the establishment and update of the Programme. Any additional notices, consents, approvals, registrations, authorisations or other orders of regulatory authorities required in the UAE in connection with the issuance and sale of Notes in a Series which are required to be obtained prior to the Issue Date of such Notes will be obtained prior to such Issue Date.

5. **Listing of Notes and Admission to Trading of Notes**

Application has been made to the Luxembourg Stock Exchange for Notes issued under the Programme to be admitted to trading on the regulated market of the Luxembourg Stock Exchange, which is a regulated market for the purposes of EU MiFID II and to be listed on the official list of the Luxembourg Stock Exchange.

The Programme also permits Notes to be issued on the basis that they will not be admitted to listing, trading and/or quotation by any competent authority, stock exchange and/or quotation system or to be admitted to listing, trading and/or quotation by such other or further competent authorities, stock exchanges and/or quotation systems as may be agreed between the Bank and the relevant Dealer(s) in relation to each Series.

6. **Validity of this Base Prospectus**

For the avoidance of doubt, the Bank shall have no obligation to update this Base Prospectus after the end of its 12-month validity period.

7. **Documents Available**

So long as any Notes are outstanding under the Programme, copies of the following documents will, when published, be available from the registered office of the Bank and from the specified offices of the Paying Agents for the time being in London and Luxembourg:

(i) Memorandum and Articles of Association (with a direct and accurate English translation thereof) of the Bank;

(ii) the Financial Statements;

(iii) the Deed of Covenant and the Agency Agreement (which contains the forms of the Global Notes, the Notes in definitive form, the Coupons and the Talons);

(iv) a copy of this Base Prospectus; and

(v) any future base prospectuses, prospectuses, information memoranda, supplements to the Base Prospectus and any Final Terms and Pricing Supplements (in the case of Exempt Notes) (save that a Pricing Supplement will only be available for inspection by a Holder of such Note and such Holder must produce evidence satisfactory to the Bank and the Paying Agent as to its holding of Notes and identity) to this Base Prospectus.

This Base Prospectus will be published on the website of the Bank at https://www.mashreqbank.com/en/uae/about-us/ and will remain available for a period of 10 years following the date of this Base Prospectus.

In addition, the Base Prospectus and each Final Terms (but not, for the avoidance of doubt, any Pricing Supplement) will be published on the website of the Luxembourg Stock Exchange at www.bourse.lu. The Deed of Covenant and the Memorandum and Articles of Association of the Bank will be available for viewing at https://www.mashreqbank.com/uae/en/about-us/moa-aoa.

Copies of the 2006 ISDA Definitions and the 2021 ISDA Definitions shall be available upon request from the registered office of the Bank.

8. **Clearing Systems**

The Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The appropriate Common Code and International Securities Identification Number (ISIN) in relation to each Tranche of Notes allocated by Euroclear and Clearstream, Luxembourg will be specified in the relevant Final Terms. The relevant Final Terms shall specify any other clearing system as shall have accepted the relevant Notes for clearance together with any further appropriate information.

The address of Euroclear is 1 Boulevard Du Roi Albert II, 1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue J. F. Kennedy, 1855 Luxembourg.

9. **Conditions for Determining Price**

The price and amount of Notes to be issued under the Programme will be determined by the Bank and the relevant Dealer at the time of issue in accordance with prevailing market conditions. In the case of different Tranches of a Series of Notes, the issue price may include accrued interest in respect of the period from the interest commencement date of the relevant Tranche (which may be the issue date of the first Tranche of the Series or, if interest payment dates have already passed, the most recent interest payment date in respect of the Series) to the issue date of the relevant Tranche.

The yield of each Tranche of Notes will be calculated on an annual or semi-annual basis using the relevant issue price at the relevant issue date. It is not an indication of future yield.

10. **Significant or Material Change**

There has been no significant change in the financial position or financial performance of the Bank and its subsidiaries since 31 December 2021 and there has been no material adverse change in the prospects of the Bank since 31 December 2021.

11. **Litigation**

Save as described in "*Description of the Bank – Regulatory – 2021 Consent Order*", neither the Bank nor any of its subsidiaries is or has been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) which may have or have had in the 12 months preceding the date of this Base Prospectus a significant effect on the financial position or profitability of the Bank and its subsidiaries.

12. **Conflicts of Interest**

In accordance with the Commission Delegated Regulation (EU) No. 2019/980, the Bank confirms that there are no potential conflicts of interest between the duties which its directors and/or members of its administrative, management and supervisory bodies owe to the Bank and their private interests and/or other duties which they have.

13. **Dealers Transacting with the Bank**

Certain of the Dealers and their respective affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions and may perform services for the Bank and its affiliates in the ordinary course of business for which they may receive fees. In particular, in the ordinary course of their business activities, the Dealers and their respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Bank and its affiliates. Certain of the Dealers or their respective affiliates that have a lending relationship with the Bank and its affiliates routinely hedge their credit exposure to the Bank and its affiliates consistent with their customary risk management policies. Typically, such Dealers and their respective affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such short positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their respective affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

14. **Independent Auditors**

The current auditors of the Bank are PricewaterhouseCoopers (Dubai Branch) ("**PwC**"). PwC is a registered audit firm in the UAE, operating under professional licences issued by the Dubai Economic Department and the UAE Ministry of Economy. PwC was appointed as the Bank's auditor on 1 January 2018. There is no professional institute of auditors in the UAE and, accordingly, PwC is not a member of a professional body in the UAE. All PwC professionals and partners directly involved in the audit are members of the institutes from where they received their professional qualifications. The address of PwC is Emaar Square, Building 5, P.O. Box 11987, Dubai, UAE. PwC has audited, without qualification, the Financial Statements in accordance with International Standards on Auditing, as stated in their Independent Auditor's Report included herein.

15. **Material Contracts**

Neither the Bank nor any of its subsidiaries has entered into any material contracts outside the ordinary course of business which could result in its being under an obligation or entitlement which is, or may be, material to the ability of the Bank to meet its obligations in respect of the Notes.

16. **Passporting**

The Bank may, on or after the date of this Base Prospectus, make applications for one or more certificates of approval to be issued by the CSSF to the competent authority in any Member State of the EEA.

17. **Issuer Website**

The Bank's website is www.mashreqbank.com. Unless specifically incorporated by reference into this Base Prospectus, information contained on the website does not form part of this Base Prospectus.

18. **Validity of prospectus and prospectus supplements**

For the avoidance of doubt, the Bank shall have no obligation to supplement this base prospectus after the end of its 12-month validity period.

ANNEX A: FORM OF FINAL TERMS

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**EU MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II; or (iii) not a qualified investor as defined in the EU Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the EU PRIIPs Regulation.]

[PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the Financial Services and Markets Act 2000 (the "**FSMA**") to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

[EU MiFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in [Directive 2014/65/EU (as amended, "**EU MiFID II**")][EU MiFID II]; or (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to EU MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[UK MiFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "**distributor**")]/[distributor] should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[***Singapore Securities and Futures Act Product Classification –*** *Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore)(the "SFA"), the Bank has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are ["prescribed capital markets products "]/["capital markets products other than prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).*]

Final Terms dated [•]

MASHREQBANK PSC

Legal entity identifier (LEI): 5493000SA3K24EQKA103

Issue of [•] [•]
under the U.S.$5,000,000,000
EURO MEDIUM TERM NOTE PROGRAMME

Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the base prospectus dated 1 March 2022 [and the supplement(s) to it dated [•]] which [together] constitute[s] a base prospectus (the "**Base Prospectus**") for the purposes of Regulation (EU) 2017/1129 (the "**EU Prospectus Regulation**"). This document constitutes the Final Terms of the Notes described herein and has been prepared for the purposes of the EU Prospectus Regulation and must be read in conjunction with the Base Prospectus in order to obtain all the relevant information. The Base Prospectus and these Final Terms have been published in electronic form on the website of the Luxembourg Stock Exchange at www.bourse.lu. The Base Prospectus is also available at the website of the Issuer at https://www.mashreqbank.com/en/uae/about-us/.

PART A – CONTRACTUAL TERMS

1.	(i)	Series Number:	[•]
	(ii)	Tranche Number:	[•]/[Not Applicable]
	(iii)	Date on which the Notes become fungible:	[•]
2.	Specified Currency:		[•]
3.	Aggregate Principal Amount:		
	(i)	Series:	[•]
	(ii)	Tranche:	[•]/[Not Applicable]
4.	Issue Price:		[•] per cent. of the Aggregate Principal Amount [plus accrued interest from [•]]
5.	(i)	Specified Denominations:	[•]
	(ii)	Calculation Amount:	[•]
6.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[[•]/Issue Date/Not Applicable]
	(iii)	Trade Date:	[•]
7.	Maturity Date:		[•]
8.	Interest Basis:		[[•] per cent. Fixed Rate] [[•] +/- [•] per cent. Floating Rate] [Zero Coupon]
9.	Change of Interest Basis:		[For the period from and including the Interest Commencement Date, up to (but excluding) [date] paragraph [13/14] applies and for the period from (and including) the Maturity Date, paragraph [13/14] applies/[Not applicable]]
10.	Put/Call Options:		[Investor Put] [Issuer Call]

11.	Date Board approval for issuance of Notes obtained:		[[•]/Not Applicable]
12.	Status of the Notes:		[Senior]/[Subordinated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Rate(s) of Interest:	[•] per cent. per annum payable on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[•] [and [•]] in each year up to and including the Maturity Date
	(iii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iv)	Fixed Coupon Amount(s):	[•] per Calculation Amount
	(v)	Broken Amount(s):	[[•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]]/Not Applicable]
	(vi)	Day Count Fraction (Condition 6(d) (*Calculation of interest amount*)):	[Actual/Actual (ICMA)] [Actual/360] [Actual/Actual (ISDA)] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)]
14.	**Floating Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Interest period(s):	[•]
	(ii)	Specified Period(s)/Specified Interest Payment Dates:	[[•] in each year, subject to adjustment in accordance with the Business Day Convention set out in paragraph (iii) below]
	(iii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iv)	Additional Business Centre(s):	[[•]/[Not Applicable]
	(v)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
	(vi)	Party responsible for calculating the Rates of Interest and/or Interest Amount(s) (if not the Agent):	[•]/[Not Applicable]
	(vii)	Screen Rate Determination:	

•	Reference Rate:	[SOFR]/[SONIA]/[€STR]/[EURIBOR]/[•]
•	Interest Determination Date(s):	[•][1]

Insert only if Index Determination is not applicable

•	Relevant Screen Page:	[•]/[Bloomberg Page SONIO/N Index]/[New York Federal Reserve's Website]/[ECB's Website]/[Not Applicable]
•	Relevant Time:	[•]/[Not Applicable][2]
•	Relevant Financial Centre:	[•]/[Not Applicable][3]

Insert only if any of SOFR, SONIA or €STR is the Reference Rate and Index Determination is not applicable:

•	Calculation Method:	[Weighted Average/Compounded Daily]
•	Observation Method:	[Lag]/[Observation Shift]/[Lock-out]
•	Observation Look-back Period:	[5/[•]] Business Days][4]
•	D:	[365/360/[•]/[Not Applicable]]
•	Relevant Decimal Place:	[•]

Insert only if any of SOFR, SONIA or €STR is the Reference Rate and Index Determination is applicable:

•	Compounded Index:	[SONIA Compounded Index/SOFR Compounded Index]
•	Relevant Decimal Place	[•]
•	Relevant Number	[•]

(viii) ISDA Determination:

•	ISDA Definitions:	[2006 ISDA Definitions / 2021 ISDA Definitions]
•	Floating Rate Option:	[•]

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1 To be at least 5 Business Days before the relevant Interest Payment Date where the Reference Rate is SONIA, SOFR or €STR, without the prior agreement of the Calculation Agent.

2 Select "Not Applicable" for SOFR, SONIA or €STR.

3 Select "Not Applicable" for SOFR, SONIA or €STR.

4 To be at least 5 Business Days where the Reference Rate is SONIA, SOFR or €STR, without the prior agreement of the Calculation Agent.

•	Designated Maturity:	[•]
•	Reset Date:	[•]/[as specified in the ISDA Definitions]/[the first day of the relevant Interest Period]
•	Compounding:	[Applicable/Not Applicable] (*If not applicable delete the remaining sub-paragraphs of this paragraph*)
•	Compounding Method:	[Compounding with Lookback Lookback: [•] Applicable Business Days] [Compounding with Observation Period Shift Observation Period Shift: [•] Observation Period Shift Business Days Observation Period Shift Additional Business Days: [•] / [Not Applicable]] [Compounding with Lockout Lockout: [•] Lockout Period Business Days Lockout Period Business Days: [•]/[Applicable Business Days]]
•	Averaging	[Applicable/Not Applicable]] (*If not applicable delete the remaining sub-paragraphs of this paragraph*)
•	[Averaging Method:	[Averaging with Lookback Lookback: [•] Applicable Business Days] [Averaging with Observation Period Shift Observation Period Shift: [•] Observation Period Shift Business days Observation Period Shift Additional Business Days: [•]/[Not Applicable]] [Averaging with Lockout Lookout: [•] Lockout Period Business Days Lockout Period Business Days: [•]/[Applicable Business Days]]
•	Index Provisions:	[Applicable/Not Applicable] (*If not applicable delete the remaining sub-paragraphs of this paragraph*)
•	Index Method:	Compounded Index Method with Observation Period Shift Observation Period Shift: [•] Observation Period Shift Business days

			Observation Period Shift Additional Business Days: [•] / [Not Applicable]
	(ix)	Linear Interpolation:	[Not Applicable] / [Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
	(x)	Margin(s):	[+/-][•] per cent. per annum
	(xi)	Minimum Rate of Interest (Condition 7(e) (*ISDA Determination*)):	[•] per cent. per annum
	(xii)	Maximum Rate of Interest (Condition 7(e) (*ISDA Determination*)):	[•] per cent. per annum
	(xiii)	Day Count Fraction (Condition 7(g) (*Maximum or Minimum Rate of Interest*)):	[Actual/Actual (ICMA)] [Actual/Actual (ISDA)] [Actual/360] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)]
15.	**Zero Coupon Note Provisions**		[Applicable/Not Applicable]
	(i)	Accrual Yield:	[•] per cent. per annum
	(ii)	Reference Price:	[•]
	(iii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iv)	Day Count Fraction (Condition 9(h) (*Early redemption of Zero Coupon Notes*)):	[Actual/Actual (ICMA)] [Actual/360] [Actual/Actual (ISDA)] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)]

PROVISIONS RELATING TO REDEMPTION

16.	**Call Option:**		[Applicable/Not Applicable]
	(i)	Optional Redemption Date(s) (Call):	[•]
	(ii)	Optional Redemption Amount:	[•] per Calculation Amount
	(iii)	If redeemable in part:	
		(a) Minimum Redemption Amount:	[•] per Calculation Amount
		(b) Maximum Redemption Amount:	[•] per Calculation Amount

17.	**Put Option:**	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount:	[•] per Calculation Amount
18.	**Early Redemption Amount:**	
	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same:	[Not Applicable/Final Redemption Amount/[•] per Calculation Amount]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

19.	Bearer Notes:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on 30 days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
20.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/[•]]
21.	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No]
22.	Redenomination, renominalisation and reconverting provisions:	[Not Applicable/The provisions in Condition 20 (*Redenomination, Renominalisation and Reconverting*) apply]
23.	RMB Settlement Centre(s):	[•]/[Not Applicable]
24.	RMB Currency Event:	[Applicable]/[Not Applicable]
25.	Relevant Currency for Condition 6(e) (*RMB Currency Event*):	[•]/[Not Applicable]
26.	Relevant Spot Rate Screen Pages for Condition 6(e) (*RMB Currency Event*):	(i) Relevant Spot Rate Screen Page (Deliverable Basis): [•]/[Not Applicable] (ii) Relevant Spot Rate Screen Page (Non-deliverable Basis): [•]/[Not Applicable]
27.	Party responsible for calculating the Spot Rate for Condition 6(e) (*RMB Currency Event*):	[[•] (the "Calculation Agent")]/[Not Applicable]

Signed on behalf of **Mashreqbank psc**

By: ....
Duly authorised

PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

(i)	Admission to trading:	[•]/[Application has been made by Mashreqbank psc or on its behalf for the Notes to be admitted to listing on the official list of the Luxembourg Stock Exchange and to trading on the regulated market of the Luxembourg Stock Exchange with effect from [the Issue Date]/[•].
(ii)	Estimate of total expenses related to the admission to trading:	[•]

2. **RATINGS**

Ratings:

The Notes to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]:

[Fitch Ratings Limited ("**Fitch**"): [•]/[Not Applicable]]

[Moody's Investors Service Cyprus Ltd. ("**Moody's**"): [•]/[Not Applicable]]

[S&P Global Ratings Europe Limited ("**S&P**"): [•]/[Not Applicable]]

(*To include an explanation of the meaning of the ratings in relation to any rated Tranche*)

[[Each of] [Moody's and S&P] is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**EU CRA Regulation**"). As such, [each of] [Moody's and S&P] appears on the latest update of the list of registered credit rating agencies published on the on the ESMA website http://www.esma.europa.eu. [Moody's, and S&P] are not established in the UK or registered under Regulation (EU) No 1060/2009 on credit rating agencies as it forms part of domestic law of the UK by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**"). The rating that [each of] [Moody's and S&P] has given to the Notes is endorsed by [Moody's Investors Service Ltd. and S&P Global Ratings UK Limited[, respectively], [each of] which is established in the UK and registered under the UK CRA Regulation.] [Fitch is established in the UK, is registered under the UK CRA Regulation and appears on the latest update of the list of registered credit rating agencies on the UK Financial Conduct Authority's Financial Services Register. Fitch is not established in the EEA or registered under the EU CRA Regulation. The rating that Fitch has given to the Notes to be issued under the Programme is endorsed by Fitch Ratings Ireland Limited which is established in the EEA and registered under the EU CRA Regulation.][[*Insert legal name of particular credit rating agency entity providing rating*] has been certified under Regulation

(EU) No 1060/2009, as amended (the "**EU CRA Regulation**").] [[*Insert legal name of particular credit rating agency entity providing rating*] has not been certified under Regulation (EU) No 1060/2009, as amended (the "**EU CRA Regulation**") and the rating it has given to the Notes is not endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation.]

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

Save for any fees payable to the [Managers/Dealers], so far as Mashreqbank psc is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for Mashreqbank psc and its affiliates in the ordinary course of business for which they may receive fees.

4. **[FIXED RATE NOTES ONLY – YIELD**

Indication of yield:	[•] per cent. per annum on a [quarterly/[semi-] annual basis]

5. **TEFRA RULES**

[TEFRA D/TEFRA C/TEFRA not applicable]

6. **OPERATIONAL INFORMATION**

(i)	ISIN Code:	[•]
(ii)	Common Code:	[•]
(iii)	CFI:	[•]/[Not Applicable]
(iv)	FISN:	[•]/[Not Applicable]
(v)	Names and addresses of additional Paying Agent(s) (if any):	[•]/[Not Applicable]
(vi)	Relevant Benchmark[s]:	[[*specify benchmark*] is provided by [*administrator legal name*]][*repeat as necessary*]. As at the date hereof, [[*administrator legal name*][appears]/[does not appear]][*repeat as necessary*] in the register of administrators and benchmarks established and maintained by ESMA pursuant to Article 36 (Register of administrators and benchmarks) of Regulation (EU) 2016/1011]/[As far as the Bank is aware, as at the date hereof, [*specify benchmark*] does not fall within the scope of Regulation (EU) 2016/1011]/ [As far as the Bank is aware, the transitional provisions in Article 51 of Regulation (EU) 2016/1011, as amended apply, such that [name of administrator] is not currently required to obtain authorisation/registration (or, if located outside the European Union, recognition, endorsement or equivalence)]/[Not Applicable]

7. **THIRD PARTY INFORMATION**

[[•] has been extracted from [•]. Mashreqbank psc confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not Applicable]

8. **DISTRIBUTION**

(i)	Method of Distribution:	[Syndicated/Non-syndicated]
(ii)	If syndicated:	[Not Applicable/*give names*]
(A)	Names of Dealers	
(B)	Stabilising Manager(s), if any:	[Not Applicable/*give names*]
(iii)	If non-syndicated, name of Dealer:	[•]
(iv)	U.S. Selling Restrictions:	[Reg S Compliance Category [1/2]; [TEFRA C/TEFRA D/TEFRA not applicable]
(v)	Prohibition of Sales to EEA Retail Investors:	[Applicable]/[Not Applicable]
(vi)	Prohibition of Sales to UK Retail Investors:	[Applicable]/[Not Applicable]

9. **REASONS FOR THE OFFER AND ESTIMATED NET AMOUNT OF PROCEEDS**

Reasons for the offer:	[•] [See["Use of Proceeds"] in Base Prospectus/Give details] [If reasons differ from what is disclosed in the Base Prospectus, give details here.
Estimated net proceeds:	[•]

ANNEX B: FORM OF PRICING SUPPLEMENT

[PROHIBITION OF SALES TO EEA RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**EU MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of EU MiFID II; or (iii) not a qualified investor as defined in the EU Prospectus Regulation. Consequently, no key information document required by Regulation (EU) No 1286/2014 (the "**EU PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA be unlawful under the EU PRIIPs Regulation.]

[PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the Financial Services and Markets Act 2000 (the "**FSMA**") to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.]

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[UK MiFIR product governance / Professional investors and ECPs only target market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties, as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients, as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. [*Consider any negative target market*]. Any person subsequently offering, selling or recommending the Notes (a "**distributor**")]/[distributor] should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[***Singapore Securities and Futures Act Product Classification –*** *Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the Securities and Futures Act (Chapter 289 of Singapore)(the "SFA"), the Bank has determined, and hereby notifies all relevant persons (as defined in Section 309A of the SFA) that the Notes are ["prescribed capital markets products "]/["capital markets products other than prescribed capital markets products"] (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018).*]

Set out below is the form of Pricing Supplement for use in connection with each Tranche of Exempt Notes issued by Mashreqbank under the Programme.

Pricing Supplement dated [•]

NO BASE PROSPECTUS IS REQUIRED TO BE PRODUCED IN ACCORDANCE WITH REGULATION (EU) 2017/1129 (THE "EU PROSPECTUS REGULATION") FOR THIS ISSUE OF NOTES. THE LUXEMBOURG *COMMISSION DE SURVEILLANCE DU SECTEUR FINANCIER* HAS NEITHER APPROVED NOR REVIEWED THE INFORMATION CONTAINED IN THIS PRICING SUPPLEMENT.

MASHREQBANK PSC

Legal entity identifier (LEI): 5493000SA3K24EQKA103

Issue of [•] [•]
under the U.S.$5,000,000,000
EURO MEDIUM TERM NOTE PROGRAMME

PART A – CONTRACTUAL TERMS

This document constitutes the Pricing Supplement relating to the issue of Notes described herein. Terms used herein shall be deemed to be defined as such for the purposes of the Terms and Conditions of the Notes (the "**Conditions**") set forth in the base prospectus dated 1 March 2022 [and the supplement(s) to it dated [•]] (the "**Base Prospectus**"). This Pricing Supplement contains the Final Terms of the Notes and must be read in conjunction with the Base Prospectus. Full information on the Bank and the offer of the Notes is only available on the basis of the combination of this Pricing Supplement and the Base Prospectus. The Base Prospectus is available for viewing at the Bank's head office at Mashreqbank Building, Omer Bin Al Khattab Street, Deira, P.O. Box 1250, Dubai, UAE and copies may be obtained from the Issuing and Principal Paying Agent, The Bank of New York Mellon, London Branch, One Canada Square, London, E14 5AL, England.

PART A – CONTRACTUAL TERMS

1.	(i)	Series Number:	[•]
	(ii)	Tranche Number:	[•]/[Not Applicable]
	(iii)	Date on which the Notes become fungible:	[•]
2.	Specified Currency:		[•]
3.	Aggregate Principal Amount:		
	(i)	Series:	[•] [The Aggregate Principal Amount of this Series of Notes shall not exceed the product of the Specified Denominations and forty-nine (49) with the issue of any additional tranche(s) of notes that become fungible to this Series of Notes.]
	(ii)	Tranche:	[•]/[Not Applicable]
4.	Issue Price:		[•] per cent. of the Aggregate Principal Amount [plus accrued interest from [•]]
5.	(i)	Specified Denominations:	[•]

	(ii)	Calculation Amount:	[•]
6.	(i)	Issue Date:	[•]
	(ii)	Interest Commencement Date:	[[•]/Issue Date/Not Applicable]
	(iii)	Trade Date:	[•]
7.	Maturity Date:		[•]
8.	Interest Basis:		[[•] per cent. Fixed Rate] [[•] +/- [•] per cent. Floating Rate] [Zero Coupon]
9.	Change of Interest Basis:		[For the period from and including the Interest Commencement Date, up to (but excluding) [date] paragraph [13/14] applies and for the period from (and including) the Maturity Date, paragraph [13/14] applies/[Not applicable]]
10.	Put/Call Options:		[Investor Put] [Issuer Call]
11.	Date Board approval for issuance of Notes obtained:		[[•]/Not Applicable]
12.	Status of the Notes:		[Senior]/[Subordinated]

PROVISIONS RELATING TO INTEREST (IF ANY) PAYABLE

13.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Rate(s) of Interest:	[•] per cent. per annum payable on each Interest Payment Date
	(ii)	Interest Payment Date(s):	[•] [and [•]] in each year up to and including the Maturity Date
	(iii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iv)	Fixed Coupon Amount(s):	[•] per Calculation Amount
	(v)	Broken Amount(s):	[[•] per Calculation Amount payable on the Interest Payment Date falling [in/on] [•]]/Not Applicable]
	(vi)	Day Count Fraction (Condition 6(d)):	[Actual/Actual (ICMA)] [Actual/360] [Actual/Actual (ISDA)] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)]
14.	**Floating Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Interest period(s):	[•]

(ii)	Specified Period(s)/Specified Interest Payment Dates:	[[•] in each year, subject to adjustment in accordance with the Business Day Convention set out in sub-paragraph (iii) below]
(iii)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(iv)	Additional Business Centre(s):	[[•]/[Not Applicable]
(v)	Manner in which the Rate of Interest and Interest Amount is to be determined:	[Screen Rate Determination/ISDA Determination]
(vi)	Party responsible for calculating the Rates of Interest and/or Interest Amount(s) (if not the Agent):	[•]/[Not Applicable]
(vii)	Screen Rate Determination:	
	• Reference Rate:	[SOFR]/[SONIA]/[€STR]/[EURIBOR]/[•]
	• Interest Determination Date(s):	[•][5]
Insert only if Index Determination is not applicable:		
	• Relevant Screen Page:	[•]/[Bloomberg Page SONIO/N Index]/[New York Federal Reserve's Website]/[ECB's Website]/[Not Applicable]
	• Relevant Time:	[•]/[Not Applicable][6]
	• Relevant Financial Centre:	[•]/[Not Applicable][7]
Insert only if any of SOFR, SONIA or €STR is the Reference Rate and Index Determination is not applicable:		
	• Calculation Method:	[Weighted Average/Compounded Daily]
	• Observation Method:	[Lag]/[Observation Shift]/[Lock-out]
	• Observation Look-back Period:	[5/[•]] Business Days][8]
	• D:	[365/360/[•]/[Not Applicable]]

5 To be at least 5 Business Days before the relevant Interest Payment Date where the Reference Rate is SONIA, SOFR or €STR, without the prior agreement of the Calculation Agent.

6 Select "Not Applicable" for SOFR, SONIA or €STR.

7 Select "Not Applicable" for SOFR, SONIA or €STR.

8 To be at least 5 Business Days where the Reference Rate is SONIA, SOFR or €STR, without the prior agreement of the Calculation Agent.

•	Relevant Decimal Place:	[•]

Insert only if any of SOFR, SONIA or €STR is the Reference Rate and Index Determination is applicable:

•	Compounded Index:	[SONIA Compounded Index/SOFR Compounded Index]
•	Relevant Decimal Place	[•]
•	Relevant Number	[•]

(viii) ISDA Determination:

•	ISDA Definitions:	[2006 ISDA Definitions / 2021 ISDA Definitions]
•	Floating Rate Option:	[•]
•	Designated Maturity:	[•]
•	Reset Date:	[•]/[as specified in the ISDA Definitions]/[the first day of the relevant Interest Period]
•	Compounding:	[Applicable/Not Applicable] (*If not applicable delete the remaining sub-paragraphs of this paragraph*)
•	Compounding Method:	[Compounding with Lookback Lookback: [•] Applicable Business Days] [Compounding with Observation Period Shift Observation Period Shift: [•] Observation Period Shift Business Days Observation Period Shift Additional Business Days: [•] / [Not Applicable]] [Compounding with Lockout Lockout: [•] Lockout Period Business Days Lockout Period Business Days: [•]/[Applicable Business Days]]
•	Averaging:	[Applicable/Not Applicable]] (*If not applicable delete the remaining sub-paragraphs of this paragraph*)
•	[Averaging Method:	[Averaging with Lookback Lookback: [•] Applicable Business Days] [Averaging with Observation Period Shift Observation Period Shift: [•] Observation Period Shift Business days

		Observation Period Shift Additional Business Days: [•]/[Not Applicable]] [Averaging with Lockout Lookout: [•] Lockout Period Business Days Lockout Period Business Days: [•]/[Applicable Business Days]]
	• Index Provisions:	[Applicable/Not Applicable] (*If not applicable delete the remaining sub-paragraphs of this paragraph*)
	• Index Method:	Compounded Index Method with Observation Period Shift Observation Period Shift: [•] Observation Period Shift Business days Observation Period Shift Additional Business Days: [•] / [Not Applicable]
	(ix) Linear Interpolation:	[Not Applicable]/[Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation (*specify for each short or long interest period*)]
	(x) Margin(s):	[+/-][•] per cent. per annum
	(xi) Minimum Rate of Interest (Condition 7(e) (*ISDA Determination*)):	[•] per cent. per annum
	(xii) Maximum Rate of Interest (Condition 7(e) (*ISDA Determination*)):	[•] per cent. per annum
	(xiii) Day Count Fraction (Condition 7(g) (*Maximum or Minimum Rate of Interest*)):	[Actual/Actual (ICMA)] [Actual/360] [Actual/Actual (ISDA)] [30/360] [30E/360] [Eurobond basis] [30E/360 (ISDA)]
15.	**Zero Coupon Note Provisions**	[Applicable/Not Applicable]
	(i) Accrual Yield:	[•] per cent. per annum
	(ii) Reference Price:	[•]
	(iii) Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
	(iv) Day Count Fraction (Condition 9(h) (*Early redemption of Zero Coupon Notes*)):	[Actual/Actual (ICMA)] [Actual/360] [Actual/Actual (ISDA)] [30/360] [30E/360]

		[Eurobond basis] [30E/360 (ISDA)]

PROVISIONS RELATING TO REDEMPTION

16.	**Call Option:**	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s) (Call):	[•]
	(ii) Optional Redemption Amount:	[•] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[•] per Calculation Amount
	(b) Maximum Redemption Amount:	[•] per Calculation Amount
17.	**Put Option:**	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[•]
	(ii) Optional Redemption Amount:	[•] per Calculation Amount
18.	**Early Redemption Amount:**	
	Early Redemption Amount of each Note payable on redemption for taxation reasons or on event of default and/or the method of calculating the same:	[Not Applicable/Final Redemption Amount/[•] per Calculation Amount]

GENERAL PROVISIONS APPLICABLE TO THE NOTES

19.	Bearer Notes:	[Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on 30 days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note]
20.	Additional Financial Centre(s) or other special provisions relating to Payment Dates:	[Not Applicable/[•]]
21.	Talons for future Coupons to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No]
22.	Redenomination, renominalisation and reconverting provisions:	[Not Applicable/The provisions in Condition 20 (*Redenomination, Renominalisation and Reconverting*) apply]
23.	RMB Settlement Centre(s):	[•]/[Not Applicable]
24.	RMB Currency Event:	[Applicable]/[Not Applicable]

25.	Relevant Currency for Condition 6(e) (*RMB Currency Event*):	[•]/[Not Applicable]
26.	Relevant Spot Rate Screen Pages for Condition 6(e) (*RMB Currency Event*):	(i) Relevant Spot Rate Screen Page (Deliverable Basis): [•]/[Not Applicable] (ii) Relevant Spot Rate Screen Page (Non-deliverable Basis): [•]/[Not Applicable]
27.	Party responsible for calculating the Spot Rate for Condition 6(e) (*RMB Currency Event*):	[[•] (the "Calculation Agent")]/[Not Applicable]

[SELLING RESTRICTIONS:]

[The Notes have not been and will not be registered in Japan pursuant to Article 4, Paragraph 1 of the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended, the "FIEA") in reliance upon the exemption from the registration requirements since the offering constitutes the small number private placement as provided for in "ha" of Article 2, Paragraph 3 and 4, Item 2 of the FIEA.

The Note is not permitted to be divided into any unit less than the Specified Denomination.]

Signed on behalf of **Mashreqbank psc**

By: ....
Duly authorised

PART B – OTHER INFORMATION

1. **LISTING AND ADMISSION TO TRADING**

(i) Admission to trading:	[•]/[Not Applicable]
(ii) Estimate of total expenses related to the admission to trading:	[•]

2. **RATINGS**

Ratings:	The Notes to be issued [have been/are expected to be] rated]/[The following ratings reflect ratings assigned to Notes of this type issued under the Programme generally]: [Fitch Ratings Limited ("**Fitch**"): [•]/[Not Applicable]] [Moody's Investors Service Cyprus Ltd. ("**Moody's**"): [•]/[Not Applicable]] [S&P Global Ratings Europe Limited ("**S&P**"): [•]/[Not Applicable]] (*To include an explanation of the meaning of the ratings in relation to any rated Tranche*) [[Each of] [Moody's and S&P] is established in the EEA and registered under Regulation (EU) No 1060/2009, as amended (the "**EU CRA Regulation**"). As such, [each of] [Moody's and S&P] appears on the latest update of the list of registered credit rating agencies published on the on the ESMA website http://www.esma.europa.eu. [Moody's, and S&P] are not established in the UK or registered under Regulation (EU) No 1060/2009 on credit rating agencies as it forms part of domestic law of the UK by virtue of the European Union (Withdrawal) Act 2018 (the "**UK CRA Regulation**"). The rating that [each of] [Moody's and S&P] has given to the Notes is endorsed by [Moody's Investors Service Ltd. and S&P Global Ratings UK Limited[, respectively], [each of] which is established in the UK and registered under the UK CRA Regulation.] [Fitch is established in the UK, is registered under the UK CRA Regulation and appears on the latest update of the list of registered credit rating agencies on the UK Financial Conduct Authority's Financial Services Register. Fitch is not established in the EEA or registered under the EU CRA Regulation. The rating that Fitch has given to the Notes to be issued under the Programme is endorsed by Fitch Ratings Ireland Limited which is established in the EEA and registered under the EU CRA Regulation.][[*Insert legal name of particular credit rating agency entity providing rating*] has been certified under Regulation (EU) No 1060/2009, as amended (the "**EU CRA Regulation**").] [[*Insert legal name of particular credit rating agency entity providing rating*] has not been certified under Regulation (EU) No 1060/2009, as amended (the "**EU**

CRA Regulation") and the rating it has given to the Notes is not endorsed by a credit rating agency established in the EEA and registered under the EU CRA Regulation.]

3. **INTERESTS OF NATURAL AND LEGAL PERSONS INVOLVED IN THE ISSUE/OFFER**

Save for any fees payable to the [Managers/Dealers], so far as Mashreqbank psc is aware, no person involved in the issue of the Notes has an interest material to the offer. The [Managers/Dealers] and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with, and may perform other services for Mashreqbank psc and its affiliates in the ordinary course of business for which they may receive fees.

4. **[FIXED RATE NOTES ONLY – YIELD**

Indication of yield:	[•] per cent. per annum on a [quarterly/[semi-] annual basis]

5. **TEFRA RULES**

[TEFRA D/TEFRA C/TEFRA not applicable]

6. **OPERATIONAL INFORMATION**

(i)	ISIN Code:	[•]
(ii)	Common Code:	[•]
(iii)	CFI:	[•]/[Not Applicable]
(iv)	FISN:	[•]/[Not Applicable]
(v)	Names and addresses of additional Paying Agent(s) (if any):	[•]/[Not Applicable]

7. **THIRD PARTY INFORMATION**

[[•] has been extracted from [•]. Mashreqbank psc confirms that such information has been accurately reproduced and that, so far as it is aware and is able to ascertain from information published by [•], no facts have been omitted which would render the reproduced information inaccurate or misleading.]/[Not Applicable]

8. **DISTRIBUTION**

(i)	Method of Distribution:		[Syndicated/Non-syndicated]
(ii)	If syndicated:		[Not Applicable/*give names*]
	(A)	Names of Dealers	
	(B)	Stabilising Manager(s), if any:	[Not Applicable/*give names*]
(iii)	If non-syndicated, name of Dealer:		[•]
(iv)	U.S. Selling Restrictions:		[Reg S Compliance Category [1/2]; [TEFRA C/TEFRA D/TEFRA not applicable]

(v)	Prohibition of Sales to EEA Retail Investors:	[Applicable]/[Not Applicable]
(vi)	Prohibition of Sales to UK Retail Investors:	[Applicable]/[Not Applicable]

9. **REASONS FOR THE OFFER AND ESTIMATED NET AMOUNT OF PROCEEDS**

Reasons for the offer:	[•] [See["Use of Proceeds"] in Base Prospectus/Give details] [If reasons differ from what is disclosed in the Base Prospectus, give details here.
Estimated net proceeds:	[•]

ANNEX C: INDEX TO FINANCIAL STATEMENTS

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.

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

Contents **Pages**

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.

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

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.

pwc

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 internai control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internai 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

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	**6;6,432,570**	**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	**?,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	**(,,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	**,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

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

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)

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)

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	
Balance at 1 January 2020	1,775,308	907,714	312,000	(88,720)	(273,595)	4,292	18
Loss for the year ended 31 December 2020	-	-	-	-	-	-	(1
Other comprehensive loss for the year	-	-	-	(9,612)	(99,564)	(4,729)	
Total comprehensive loss for the year	-	-	-	(9,612)	(99,564)	(4,729)	(1
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	15,071	-	
Transfer to statutory and legal reserves	-	4,385	-	-	-	-	
Transaction with non-controlling interest (NCI)	-	-	-	-	-	-	
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	
Balance at 31 December 2020	1,775,308	912,099	312,000	(98,332)	(358,088)	(437)	16,
Profit for the year ended 31 December 2021	**-**	**-**	**-**	**-**	**-**	**-**	**1,**
Other comprehensive loss/(income) for the year	**-**	**-**	**-**	**(17,784)**	**(192,962)**	**437**	
Total comprehensive income for the year	**-**	**-**	**-**	**(17,784)**	**(192,962)**	**437**	**1,**
Transfer from investments revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**3,561**	**-**	
Transfer to statutory and legal reserves	**-**	**100,221**	**-**	**-**	**-**	**-**	**(1**
Bonus shares issued during the year	**230,790**	**-**	**-**	**-**	**-**	**-**	**(2**
Transaction with common control entity	**-**	**-**	**-**	**-**	**-**	**-**	
Transaction with non-controlling interest (NCI) (Note 22)	**-**	**-**	**-**	**-**	**-**	**-**	
Payment of dividends (Note 22)	**-**	**-**	**-**	**-**	**-**	**-**	
Balance at 31 December 2021	**2,006,098**	**1,012,320**	**312,000**	**(116,116)**	**(547,489)**	**-**	**17,**

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

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

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. The impact of the above amendment is expected to be immaterial on the consolidated financial statements of the Group.	Deferred until accounting periods starting not earlier than 1 January 2024
• **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	2020
	AED'000	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-u asse AED'00
Cost				
At 1 January 2020	631,503	330,921	152,294	192,12
Additions during the year	-	48,692	96,644	42,68
Transfers	532,928	100,192	113,061	
Disposals/write-offs/elimination	(7,924)	(35,919)	(135,768)	(39,73
At 31 December 2020	**1,156,507**	**443,886**	**226,231**	**195,07**
Additions during the year	**-**	**30,304**	**21,123**	**26,22**
Transfers	**32,525**	**8,502**	**2,100**	
Disposals/write-offs/elimination	**-**	**(64,720)**	**(17,118)**	**(52,798**
At 31 December 2021	**1,189,032**	**417,972**	**232,336**	**168,50**
Accumulated depreciation and impairment				
At 1 January 2020	203,431	212,306	74,072	91,61
Charge for the year (Note 32)	22,878	46,279	33,865	52,71
Disposals/write-offs	(3,085)	(30,657)	(63,921)	(39,73
At 31 December 2020	**223,224**	**227,928**	**44,016**	**104,59**
Charge for the year (Note 32)	**30,018**	**50,761**	**32,171**	**47,76**
Disposals/write-offs/elimination	**-**	**(58,948)**	**(12,667)**	**(54,165**
At 31 December 2021	**253,242**	**219,741**	**63,520**	**98,19**
Carrying amount				
At 31 December 2021	**935,790**	**198,231**	**168,816**	**70,30**
At 31 December 2020	933,283	215,958	182,215	90,48

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

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	2020
	AED'000	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	2020
	AED'000	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	2020
	AED'000	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	2020
	AED'000	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 **AED'000**	2020 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 **AED'000**	2020 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** **AED'000**	2020 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 **AED'000**	2020 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	2020
	AED'000	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	2020
	AED'000	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	2020
	AED'000	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 relate

	2021				
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gross AED'000	I
At 1 January	**2,927,079**	**(2,183,195)**	**743,884**	2,438,081	
Claims incurred during the year	**2,394,478**	**(1,295,860)**	**1,098,618**	2,772,951	
Claims settled during the year	**(2,641,143)**	**1,517,068**	**(1,124,075)**	(2,283,953)	
At 31 December	**2,680,414**	**(1,961,987)**	**718,427**	2,927,079	

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	2020
	AED'000	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	2020
	AED'000	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

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			
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets
	AED'000	**AED'000**	**AED'000**	AED'0
UAE.	**89,063,593**	**74,602,940**	**26,291,091**	87,839,54
Other Middle East Countries	**37,079,026**	**31,949,362**	**8,772,586**	27,550,38
O.E.C.D.	**19,846,199**	**29,787,617**	**6,264,462**	17,423,64
Others	**31,064,791**	**19,689,404**	**8,164,161**	25,709,67
	177,053,609	**156,029,323**	**49,492,300**	158,523,24

(b) Industry Sectors

	31 December 2021			
	Assets	**Liabilities**	**Letter of credit and guarantees**	Assets
	AED'000	**AED'000**	**AED'000**	AED'0
Government and public sector	**29,948,837**	**7,194,809**	**44,682**	28,620,7
Commercial & business	**59,148,116**	**74,139,651**	**34,386,637**	54,781,2
Personal	**19,243,040**	**21,504,238**	**480,376**	15,180,8
Financial institutions	**66,620,002**	**51,993,297**	**14,374,179**	58,365,4
Others	**2,093,614**	**1,197,328**	**206,426**	1,574,9
	177,053,609	**156,029,323**	**49,492,300**	158,523,24

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.

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	**Internationa banking** AED'00
Net interest income and earnings from Islamic products	**1,016,181**	**954,511**	**214,689**	**299,368**	**371,70**
Non interest income, net	**686,150**	**707,735**	**661,088**	**74,658**	**195,52**
Operating income	**1,702,331**	**1,662,246**	**875,777**	**374,026**	**567,22**
General and administrative expenses					
Operating profit before impairment					
Allowances for impairment, net					
Profit before tax					
Tax expense					
Profit for the year					
Attributable to:					
Owners of the Parent					
Non-controlling interests					
Segment Assets	**61,650,177**	**17,263,207**	**36,209,355**	**15,093,871**	**18,634,75**
Segment Liabilities	**51,973,472**	**36,727,897**	**17,472,601**	**15,033,770**	**11,887,39**

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	**Internationa banking** AED'00
Net interest income and earnings from Islamic products	850,554	913,053	(11,434)	272,073	280,06
Non interest income, net	589,191	495,004	673,098	65,312	184,58
Operating income	1,439,745	1,408,057	661,664	337,385	464,65
General and administrative expenses					
Operating profit before impairment					
Allowances for impairment, net					
Loss before tax					
Tax expense					
Loss for the year					
Attributable to:					
Owners of the Parent					
Non-controlling interests					
Segment Assets	50,953,938	14,611,527	40,493,411	14,743,950	11,134,78
Segment Liabilities	48,281,737	30,133,069	15,127,649	12,668,622	10,853,88

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 m	
				Up to 3 months AED'000	3 – 6 months AED'000
Derivatives held for trading:					
Forward foreign exchange contract	**249,452**	**194,982**	**56,973,978**	**30,699,732**	**12,574,299**
Foreign exchange options (bought)	**-**	**336**	**1,880,243**	**1,566,326**	**31,640**
Foreign exchange options (sold)	**513**	**-**	**1,622,613**	**1,565,979**	**31,640**
Interest rate swaps	**606,997**	**662,173**	**34,035,738**	**907,988**	**377,668**
Credit default swaps	**237**	**271**	**55,095**	**-**	**-**
Futures contracts purchased (Customer)	**47,450**	**23,481**	**1,208,485**	**802,997**	**1,659**
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**
Total	**929,573**	**930,137**	**97,088,662**	**36,412,123**	**13,056,487**
Held as fair value/ cash flow hedge:					
Cross-currency swap	**98,613**	**40,123**	**1,960,813**	**22,620**	**-**
Total	**1,028,186**	**970,260**	**99,049,475**	**36,434,743**	**13,056,487**

41 Derivatives (continued)

31 December 2020

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to Up to 3 months AED'000	3 – 6 months AED'000
Derivatives held for trading:					
Forward foreign exchange contract	627,625	472,924	75,256,538	55,598,286	7,754,686
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
Credit default swaps	-	240	55,095	-	-
Futures contracts purchased (Customer)	538	-	67,125	43,371	20,259
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
Futures contracts sold (Bank)	35	538	154,865	85,194	20,259
Total	1,406,654	1,250,630	110,463,921	57,025,607	8,605,165
Held as fair value/ cash flow hedge:					
Cross-currency swap	105,759	42,154	2,123,671	-	-
Total	1,512,413	1,292,784	112,587,592	57,025,607	8,605,165

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. Th
assets below also represents the Group's maximum exposure to credit risk on these assets:

	2021				
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**
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**
Cash and balances with Central Bank	**17,507,751**	**-**	**-**	**17,507,751**	17,941,941
Loss allowance	**-**	**-**	**-**	-	-
Carrying amount	**17,507,751**	**-**	**-**	**17,507,751**	17,941,941
Deposits and balances due from banks					
Investment-grade	**5,765,434**	**72,762**	**-**	**5,838,196**	7,217,923
BB+ & below	**12,103,401**	**1,360,385**	**-**	**13,463,786**	5,598,832
Unrated	**8,114,789**	**1,476,877**	**78,946**	**9,670,612**	9,978,354
	25,983,624	**2,910,024**	**78,946**	**28,972,594**	22,795,109
Loss allowance	**(92,130)**	**(14,417)**	**(60,952)**	**(167,499)**	(69,256)
Carrying amount	**25,891,494**	**2,895,607**	**17,994**	**28,805,095**	22,725,853

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**

43 Risk management (continued)

Credit risk management (continued)

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

	2020			
	Stage 1	**Stage 2**	**Stage 3**	
Credit risk exposures relating to on-balance sheet assets are as follows:	**12-month AED'000**	**Lifetime AED'000**	**Lifetime AED'000**	**Total AED'000**
Other financial assets measured at amortised cost				
Investment-grade	7,483,893	-	-	7,483,893
BB+ & below	3,170,045	-	-	3,170,045
Unrated	365,740	-	2,205	367,945
	11,019,678	-	2,205	11,021,883
Loss allowance	(19,024)	-	(2,205)	(21,229)
Carrying amount	11,000,654	-	-	11,000,654
Other financial assets measured at FVTOCI (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				
	Stage 1	**Stage 2**	**Stage 3**		**Stage 1**
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**
Other assets	**-**	**566,636**	**435,185**	**1,001,821**	-
Loss allowance	**-**	**(19,743)**	**(419,613)**	**(439,356)**	-
Carrying amount	**-**	**546,893**	**15,572**	**562,465**	-
Acceptances	**14,137,040**	**203,631**	**-**	**14,340,671**	12,680,894
Loss allowance	**(25,618)**	**(3,787)**	**-**	**(29,405)**	(25,277)

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**		**Stage 1**
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**
Letters of credit	**13,957,351**	**1,767,518**	**60,916**	**15,785,785**	7,772,256
Guarantees	**28,330,800**	**4,195,544**	**1,180,171**	**33,706,515**	35,097,006
Undrawn credit commitments -Irrevocable	**7,832,021**	**118,026**	**-**	**7,950,047**	6,244,126
	50,120,172	**6,081,088**	**1,241,087**	**57,442,347**	49,113,388
Loss allowance	**(62,093)**	**(38,680)**	**(408,594)**	**(509,367)**	(66,481)

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 Decembe

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

43 Risk management (continued)

Loss allowance (continued)

	2021				
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**	**Stage 1 12-month ECL**
	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
Transfers					
Transfer from Stage 1 to Stage 2	**(149,949)**	**149,949**	**-**	**-**	(394,706)
Transfer from Stage 1 to Stage 3	**(15,085)**	**-**	**15,085**	**-**	(30,878)
Transfer from Stage 2 to Stage 1	**1,240**	**(1,240)**	**-**	**-**	12,720
Transfer from Stage 2 to Stage 3	**-**	**(747,341)**	**747,341**	**-**	-
Transfer from Stage 3 to Stage 2	**-**	**-**	**-**	**-**	-
New financial assets originated	**297,592**	**-**	**-**	**297,592**	592,872
Changes in PDs/LGDs/EADs	**(178,843)**	**(440,741)**	**2,041,979**	**1,422,395**	(59,062)
Write-offs	**-**	**-**	**(1,029,536)**	**(1,029,536)**	-
Loss allowance as at 31 December	**511,719**	**1,235,239**	**4,347,119**	**6,094,077**	556,764

43 Risk management (continued)

Loss allowance (continued)

	2021				
	Stage 1 12-month ECL AED'000	**Stage 2 Lifetime ECL AED'000**	**Stage 3 Lifetime ECL AED'000**	**Total AED'000**	**Stage 1 12-month ECL AED'000**
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
Transfers					
Transfer from Stage 1 to Stage 2	**(2,602)**	**2,602**	**-**	**-**	(11,818)
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(4,001)
Transfer from Stage 2 to Stage 1	**2**	**(2)**	**-**	**-**	6
Transfer from Stage 2 to Stage 3	**-**	**(419)**	**419**	**-**	-
New financial assets originated	**30,371**	**-**	**-**	**30,371**	42,916
Changes in PDs/LGDs/EADs	**(34,872)**	**(2,605)**	**226,970**	**189,493**	(8,786)
Write-offs	**-**	**-**	**(231)**	**(231)**	-
Loss allowance as at 31 December	**51,011**	**12,106**	**563,846**	**626,963**	58,112

43 Risk management (continued)

Loss allowance (continued)

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

43 Risk management (continued)

Loss allowance (continued)

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

43 Risk management (continued)

Loss allowance (continued)

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

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 a

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

43 Risk management (continued)

Gross carrying amount (continued)

	2021				
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**
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
Transfers					
Transfer from Stage 1 to Stage 2	**(2,849,582)**	**2,849,582**	**-**	**-**	(5,326,464)
Transfer from Stage 2 to Stage 1	**1,987**	**(1,987)**	**-**	**-**	1,415
Transfer from Stage 2 to Stage 3	**-**	**(14)**	**14**	**-**	-
New financial assets originated	**25,953,680**	**-**	**-**	**25,953,680**	25,956,861
Repayments and other movements	**(19,917,571)**	**(5,462,576)**	**(6,091)**	**(25,386,238)**	(23,184,822)
Gross carrying amount as at 31 December	**25,983,624**	**2,910,024**	**78,946**	**28,972,594**	22,795,110

43 Risk management (continued)

Gross carrying amount (continued)

	2021				
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**
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
New financial assets originated	**11,787,603**	**-**	**-**	**11,787,603**	9,391,139
Repayments and other movements	**(5,494,047)**	**-**	**-**	**(5,494,047)**	(4,256,227)
Gross carrying amount as at 31 December	**23,785,800**	**-**	**2,205**	**23,788,005**	17,492,244

43 Risk management (continued)

Gross carrying amount (continued)

	2021				
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**
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
Transfers					
Transfer from Stage 1 to Stage 2	**(3,655,063)**	**3,655,063**	**-**	**-**	(3,922,161)
Transfer from Stage 1 to Stage 3	**(222,739)**	**-**	**222,739**	**-**	(420,580)
Transfer from Stage 2 to Stage 3	**-**	**(969,760)**	**969,760**	**-**	-
Transfer from Stage 3 to Stage 2	**-**	**14**	**(14)**	**-**	-
Transfer from Stage 2 to Stage 1	**80,278**	**(80,278)**	**-**	**-**	378,362
New financial assets originated	**38,703,246**	**-**	**-**	**38,703,246**	34,226,398
Repayments and other movements	**(26,291,804)**	**(2,264,542)**	**719,246**	**(27,837,100)**	(33,715,915)
Write-offs	**-**	**-**	**(1,029,536)**	**(1,029,536)**	-
Gross carrying amount as at 31 December	**62,421,522**	**5,646,447**	**4,458,678**	**72,526,647**	53,807,604

43 Risk management (continued)

Gross carrying amount (continued)

	2021				
	Stage 1 12-month AED'000	**Stage 2 Lifetime AED'000**	**Stage 3 Lifetime AED'000**	**Total AED'000**	**Stage 1 12-month AED'000**
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
Transfers					
Transfer from Stage 1 to Stage 2	**(319,103)**	**319,103**	**-**	**-**	(211,891)
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	(367,862)
Transfer from Stage 2 to Stage 3	**-**	**(5,396)**	**5,396**	**-**	-
Transfer from Stage 2 to Stage 1	**1,931**	**(1,931)**	**-**	**-**	10,679
New financial assets originated	**7,985,879**	**-**	**-**	**7,985,879**	7,880,139
Repayments and other movements	**(6,880,061)**	**11,832**	**(90,675)**	**(6,958,904)**	(7,728,481)
Write-offs	**-**	**-**	**(231)**	**(231)**	-
Gross carrying amount as at 31 December	**14,089,965**	**615,032**	**975,420**	**15,680,417**	13,301,319

43 Risk management (continued)

Gross carrying amount (continued)

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

43 Risk management (continued)

Gross carrying amount (continued)

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

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
31 December 2021				
Assets				
Cash and balances with central banks	**7,831,318**	-	-	-
Deposits and balances due from banks	**15,576,629**	**6,116,818**	**3,778,812**	**621,417**
Other financial assets measured at fair value	**3,636,168**	**1,327,272**	**4,578,534**	**653,687**
Other financial assets measured at amortised cost	**1,820,947**	**538,198**	**1,114,614**	**3,409,710**
Loans and advances measured at amortised cost	**51,737,556**	**4,031,722**	**1,732,799**	**2,684,262**
Islamic financing and investment products measured at amortised cost	**9,716,335**	**697,368**	**217,238**	**681,314**
Acceptances	-	-	-	-
Other assets	-	-	-	-
Reinsurance contract assets	-	-	-	-
Investment in associate	-	-	-	-
Investment properties	-	-	-	-
Property and equipment	-	-	-	-
Intangible assets	-	-	-	-
Total assets	**90,318,953**	**12,711,378**	**11,421,997**	**8,050,390**

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
Liabilities and equity				
Deposits and balances due to banks	6,488,833	1,502,705	2,143,798	3,000
Repurchase agreements with banks	1,418,214	26,510	782,459	501,964
Customers' deposits	23,646,224	7,181,847	8,953,601	2,109,895
Islamic customers' deposits	2,328,279	4,474,283	4,264,002	27,402
Acceptances				
Other liabilities	-	-	-	-
Medium-term loans	472,660	80,806	1,054,812	5,140,175
Insurance contract liabilities	-	-	-	-
Equity attributable to shareholders of the Parent	-	-	-	-
Non-controlling interest	-	-	-	-
Total liabilities and equity	34,354,210	13,266,151	17,198,672	7,782,436
On balance sheet gap	54,089,042	(554,773)	(5,776,675)	267,954
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

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
31 December 2020				
Assets				
Cash and balances with central banks	8,392,028	2,000,000	2,000,000	-
Deposits and balances due from banks	16,228,495	4,158,303	3,804,056	389,681
Other financial assets measured at fair value	581,385	37,170	2,547,845	937,238
Other financial assets measured at amortised cost	411,012	1,218,138	2,397,772	3,627,965
Loans and advances measured at amortised cost	44,590,992	2,244,840	1,873,136	3,433,364
Islamic financing and investment products measured at amortised cost	11,757,598	233,106	169,835	438,141
Acceptances	-	-	-	-
Other assets	-	-	-	-
Reinsurance contract assets	-	-	-	-
Investment in associate	-	-	-	-
Investment properties	-	-	-	-
Property and equipment	-	-	-	-
Intangible assets	-	-	-	-
Total assets	81,961,510	9,891,557	12,792,644	8,826,389

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
31 December 2020				
Liabilities and equity				
Deposits and balances due to banks	4,963,548	1,994,543	1,782,565	-
Repurchase agreements with banks	56,819	25,950	80,273	1,373,681
Customers' deposits	22,251,958	6,771,925	8,094,963	1,911,872
Islamic customers' deposits	4,307,813	1,800,117	1,344,326	2,090,995
Acceptances	-	-	-	-
Other liabilities	-	-	-	-
Medium-term loans	378,750	1,274,114	603,865	6,799,541
Insurance contract liabilities	-	-	-	-
Equity attributable to shareholders of the Parent	-	-	-	-
Non-controlling interest	-	-	-	-
Total liabilities and equity	31,958,888	11,866,649	11,905,992	12,176,089
On balance sheet gap	47,654,324	(1,975,092)	886,653	(3,349,700)
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

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
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
Assets				
Cash and balances with central banks	**17,507,751**	**-**	**-**	
Deposits and balances due from banks	**15,439,040**	**5,434,342**	**5,104,844**	**2,826,869**
Other financial assets measured at fair value	**4,240,414**	**1,367,214**	**4,607,737**	**653,687**
Other financial assets measured at amortised cost	**1,839,475**	**538,146**	**1,114,300**	**3,408,507**
Loans and advances measured at amortised cost	**19,994,724**	**5,047,357**	**3,746,344**	**18,142,111**
Islamic financing and investment products measured at amortised cost	**7,086,840**	**663,087**	**463,508**	**2,025,467**
Acceptances	**3,847,093**	**4,528,949**	**5,831,140**	**133,489**
Other assets	**2,525,122**	**194,799**	**359,255**	**78,028**
Reinsurance contract assets	**781,827**	**517,302**	**595,935**	**784,907**
Investment in associate	**-**	**-**	**-**	
Investment properties	**-**	**-**	**-**	
Property and equipment	**-**	**-**	**-**	
Intangible assets	**-**	**-**	**-**	
Total assets	**73,262,286**	**18,291,196**	**21,823,063**	**28,053,065**

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 t 5 year AED'00
Liabilities and equity				
Deposits and balances due to banks	**15,978,784**	**1,440,904**	**2,143,798**	**3,00**
Repurchase agreements with banks	**1,418,213**	**26,510**	**782,459**	**501,96**
Customers' deposits	**69,069,399**	**6,962,385**	**8,839,799**	**2,003,60**
Islamic customers' deposits	**5,566,381**	**4,474,303**	**4,264,002**	**27,40**
Acceptances	**3,847,093**	**4,528,949**	**5,831,140**	**133,48**
Other liabilities	**4,831,789**	**236,957**	**576,549**	**268,97**
Medium-term loans	**457,792**	**80,806**	**1,542,065**	**5,193,55**
Insurance contract liabilities	**1,405,261**	**804,938**	**870,607**	**1,081,08**
Equity attributable to shareholders of the Parent	**-**	**-**	**-**	
Non-controlling interest	**-**	**-**	**-**	
Total liabilities and equity	**102,574,712**	**18,555,752**	**24,850,419**	**9,213,07**
Guarantees	**9,102,914**	**2,854,797**	**4,966,230**	**6,368,10**
Letters of credit	**10,322,318**	**1,196,716**	**3,659,300**	**607,45**
Total	**19,425,232**	**4,051,513**	**8,625,530**	**6,975,55**

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
Assets				
Cash and balances with central banks	13,941,941	2,000,000	2,000,000	
Deposits and balances due from banks	18,949,322	3,467,761	4,951,682	870,26
Other financial assets measured at fair value	1,153,708	37,170	2,547,845	937,23
Other financial assets measured at amortised cost	411,012	1,233,765	2,396,924	3,626,68
Loans and advances measured at amortised cost	18,822,621	4,143,633	4,078,018	15,692,25
Islamic financing and investment products measured at amortised cost	5,932,170	1,314,330	400,708	2,588,02
Acceptances	2,816,593	3,876,726	5,768,024	306,11
Other assets	2,039,170	250,057	864,649	137,42
Reinsurance contract assets	795,598	502,291	583,966	965,16
Investment in associate	-	-	-	
Investment properties	-	-	-	
Property and equipment	-	-	-	
Intangible assets	-	-	-	
Total assets	64,862,135	16,825,733	23,591,816	25,123,17

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 5 yea AED'0
Liabilities and equity				
Deposits and balances due to banks	11,067,272	1,994,544	1,782,564	
Repurchase agreements with banks	809,819	25,950	80,273	1,373,6
Customers' deposits	59,164,753	6,895,909	8,028,747	1,930,7
Islamic customers' deposits	6,609,923	1,800,117	1,383,530	2,090,9
Acceptances	2,816,593	3,876,726	5,768,024	306,1
Other liabilities	4,273,745	350,012	696,971	357,2
Medium-term loans	347,374	1,274,114	603,865	7,350,6
Insurance contract liabilities	1,424,304	787,458	826,343	1,270,1
Equity attributable to shareholders of the Parent	-	-	-	
Non-controlling interest	-	-	-	
Total liabilities and equity	86,513,783	17,004,830	19,170,317	14,679,5
Guarantees	7,379,488	2,384,489	7,274,352	10,154,2
Letters of credit	5,395,946	1,835,813	1,452,649	551,1
Total	12,775,434	4,220,302	8,727,001	10,705,4

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligati

	Within 3 months AED’000	Over 3 to 6 months AED’000	Over 6 to 12 months AED’000	Over 1 5 yea AED’0
Liabilities and equity				
Deposits and balances due to banks	**15,978,784**	**1,440,904**	**2,143,798**	**3,0**
Repurchase agreements with banks	**1,418,213**	**26,510**	**782,459**	**501,9**
Customers’ deposits	**69,087,463**	**7,001,277**	**8,942,058**	**2,416,1**
Islamic customers’ deposits	**5,573,160**	**4,532,835**	**4,490,105**	**28,0**
Acceptances	**3,847,093**	**4,528,949**	**5,831,140**	**133,4**
Other liabilities	**4,831,789**	**236,957**	**576,549**	**268,9**
Medium-term loans	**459,999**	**80,838**	**1,550,939**	**5,262,9**
Insurance contract liabilities	**1,405,261**	**804,938**	**870,607**	**1,081,0**
Equity attributable to shareholders of the Parent	**-**	**-**	**-**	
Non-controlling interest	**-**	**-**	**-**	
Total liabilities and equity	**102,601,762**	**18,653,208**	**25,187,655**	**9,695,6**

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile based on contractual undiscounted repayment obligati

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 5 yea AED'0
Liabilities and equity				
Deposits and balances due to banks	11,067,272	1,994,544	1,782,564	
Repurchase agreements with banks	809,819	25,950	80,273	1,373,
Customers' deposits	59,267,776	6,953,113	8,092,559	2,478,
Islamic customers' deposits	6,704,920	1,921,464	1,508,680	2,094,
Acceptances	2,816,593	3,876,726	5,768,024	306,
Other liabilities	3,636,540	350,012	696,971	357,
Medium-term loans	348,671	1,280,771	681,984	7,355,
Insurance contract liabilities	1,424,304	787,458	826,343	1,270,
Equity attributable to shareholders of the Parent	-	-	-	
Non-controlling interest	-	-	-	
Total liabilities and equity	86,075,895	17,190,038	19,437,398	15,235,

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	2020
	AED'000	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 inpu
	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 marke
Quoted equity investments	**37,668**	6,719	Level 1	Quoted bid prices in an active marke
Unquoted debt investments	**1,291,065**	796,240	Level 2	Based on the recent similar transacti in market
Mutual and other funds	**686,534**	629,865	Level 2	Quoted prices in secondary market.
Unquoted equity investments	**1,113**	1,112	Level 3	Net assets valuation method due to unavailability of market a comparable financial information. N assets values were determined based the latest available audited/ histori financial information.
	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**
	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
Unquoted debt investments	**559,930**		560,592	Level 3	Based on the recent simil transaction in market
Quoted debt investments	**12,920,789**		5,910,374	Level 1	Quoted bid prices in an active market
Unquoted equity investments	**53,589**		54,949	Level 3	Comparable sales transactions with appropr haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.
Mutual and other funds	**55,514**		-	Level 2	Quoted prices in secon market.
	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.

2020 CONSOLIDATED FINANCIAL STATEMENTS

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Mashreqbank PSC Group

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

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Board of Directors' report

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

Incorporation and registered offices

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

Principal activities

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

Financial position and results

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

Dividend

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

Directors

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

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

Auditors

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

By order of the Board of Directors

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

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

Report on the audit of the consolidated financial statements

Our opinion

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

What we have audited

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

Basis for opinion

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

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

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

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T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

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

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

Our audit approach

Key Audit Matters	• Measurement of Expected Credit Losses

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

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

Key audit matters

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

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

Our audit approach (continued)

Key audit matters (continued)

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

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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 express any form of assurance conclusion thereon.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Report on other legal and regulatory requirements

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

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

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

Report on other legal and regulatory requirements (continued)

- Note 32 to the consolidated financial statements discloses the social contributions made during the financial year ended 31 December 2020; and
- based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2020 any of the applicable provisions of the UAE Federal Law No. (2) of 2015, or in respect of the Bank, it's Articles of Association, which would materially affect its activities or its financial position as at 31 December 2020.

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

PricewaterhouseCoopers
10 February 2021

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

Mashreqbank PSC Group

Consolidated statement of financial position

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

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

Abdul Aziz Abdulla Al Ghurair
Chairman

Ahmed Abdelaal
Group Chief Executive Officer

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

Mashreqbank PSC Group

Consolidated statement of profit or loss

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

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

Mashreqbank PSC Group

Consolidated statement of comprehensive income

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

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

Mashreqbank PSC Group

Consolidated statement of changes in equity

	Issued and paid up capital AED'000	Statutory and legal reserves AED'000	General reserve AED'000	Currency translation reserve AED'000	Investments revaluation reserve AED'000	Cash flow hedge reserve AED'000	Ret ear AED
Balance at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,48
Changes on initial application of IFRS 16	-	-	-	-	-	-	(5
Restated balances as at 1 January 2019	1,775,308	903,877	312,000	(81,380)	(242,733)	(4,124)	17,475
Profit for the year ended 31 December 2019	-	-	-	-	-	-	2,06
Other comprehensive loss for the year	-	-	-	(7,340)	38,268	8,416	
Total comprehensive income/(loss) for the year	-	-	-	(7,340)	38,268	8,416	2,06
Transfer from investments revaluation reserve to retained earnings	-	-	-	-	(69,130)	-	69
Transfer to statutory and legal reserves	-	3,837	-	-	-	-	(3
Payment of dividends [Note 21(g)]	-	-	-	-	-	-	(710
Balance at 31 December 2019	**1,775,308**	**907,714**	**312,000**	**(88,720)**	**(273,595)**	**4,292**	**18,895**
(Loss) / profit for the year ended 31 December 2020	**-**	**-**	**-**	**-**	**-**	**-**	**(1,277**
Other comprehensive loss for the year	**-**	**-**	**-**	**(9,612)**	**(99,564)**	**(4,729)**	
Total comprehensive (loss) / income for the year	**-**	**-**	**-**	**(9,612)**	**(99,564)**	**(4,729)**	**(1,277**
Transfer from investments revaluation reserve to retained earnings	**-**	**-**	**-**	**-**	**15,071**	**-**	**(15**
Transfer to statutory and legal reserves	**-**	**4,385**	**-**	**-**	**-**	**-**	**(4**
Transaction with non-controlling interest (NCI)	**-**	**-**	**-**	**-**	**-**	**-**	
Payment of dividends [Note 21(g)]	**-**	**-**	**-**	**-**	**-**	**-**	**(710**
Balance at 31 December 2020	**1,775,308**	**912,099**	**312,000**	**(98,332)**	**(358,088)**	**(437)**	**16,888**

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

Mashreqbank PSC Group

Consolidated statement of cash flows

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

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

Mashreqbank PSC Group

Consolidated statement of cash flows (continued)

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

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

Mashreqbank PSC Group

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

1 General information

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

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

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

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

2.1 New and revised IFRS applied on the consolidated financial statements

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

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

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

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

Mashreqbank PSC Group

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

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

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

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

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

Mashreqbank PSC Group

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

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

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

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

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies

3.1 Statement of compliance

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

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

3.2 Basis of preparation

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

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation

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

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

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

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

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders and other parties;
- rights 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.

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Changes in the Group's ownership interest in existing subsidiaries

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

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

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

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

Business combinations

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.3 Basis of consolidation (continued)

Business combinations (continued)

The excess of the

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

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

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

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

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

3.4 Goodwill

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition

(a) Interest income and expense

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

(b) Income from Islamic financing and investments products

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

(c) Fee and commission income and expenses

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

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

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

(d) Dividend income

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.5 Revenue recognition (continued)

(e) Insurance contracts revenue and insurance commission income

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

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

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

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

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

(g) Rental income

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

3.6 Leasing

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.6 Leasing (continued)

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

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

Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability; and
- any lease payments made at or before the commencement date less any lease incentives received

3.7 Foreign currencies

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.7 Foreign currencies (continued)

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

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

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

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

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

3 Summary of significant accounting policies (continued)

3.8 Borrowing costs

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

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

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

3.9 Investment properties

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.10 Property and equipment

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

Freehold land and capital work in progress are not depreciated.

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

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.11 Impairment of non-financial assets

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

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

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

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

3.12 Intangible assets

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.13 Provisions

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

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

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

3.14 Financial instruments

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

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

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

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

3.14.1 Financial assets

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

(i) Classification of financial assets

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

Debt instruments:

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

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

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

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

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

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

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

The Group subsequently measures all equity investments at fair value through profit or loss, except where the Group's management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. The Group's policy is to designate equity investments as FVTOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in OCI and are not subsequently reclassified to profit or loss, including on disposal. On disposal of these equity investments, any related balance within the 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.

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(i) Classification of financial assets (continued)

Amortised cost and effective interest method

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

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

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

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

(ii) Impairment of financial assets

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.1 Financial assets (continued)

(iii) Modification of loans (continued)

Derecognition other than on a modification

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

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

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

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

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

3.14.2 Financial liabilities

Classification and subsequent measurement

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.2 Financial liabilities (continued)

- This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition whereby for financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Group recognises any expense incurred on the financial liability; and
- Financial guarantee contracts and loan commitments.

Derecognition

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

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

3.14.3 Financial guarantee contracts and loan commitments

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.14 Financial instruments (continued)

3.14.4 Foreign exchange gains and losses

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

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

3.15 Offsetting of financial assets and liabilities

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

3.16 Derivative financial instruments

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.16 Derivative financial instruments (continued)

(a) Embedded derivatives

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

3.17 Hedge accounting

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

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

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

Fair value hedges

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.17 Hedge accounting (continued)

Cash flow hedges

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts

3.18.1 Product classification

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

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

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

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

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

  (i) the performance of a specified pool of contracts or a specified type of contract,

  (ii) realised/unrealised investment returns on a specified pool of assets held by the issuer or,

  (iii) the profit or loss of the Company, fund or other entity that issues that contract.

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.1 Product classification (continued)

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

3.18.2 Recognition and measurement

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

These contracts are general insurance contracts and life assurance contracts.

3.18.3 General insurance contracts

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

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

3.18.4 Life assurance contracts

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.4 Life assurance contracts (continued)

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

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

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

3.18.5 Reinsurance contracts

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

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

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities

(a) Unearned premium reserve

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

(b) Additional reserve

The additional reserve comprises of the provisions made for:

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

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

(c) Life assurance fund

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

(d) Unit-linked liabilities

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.18 Insurance contracts (continued)

3.18.6 Insurance contract liabilities (continued)

(e) Outstanding claims

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

Deferred Policy Acquisition Costs (DAC)

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

- For property, casualty and short-duration life insurance contracts, DAC is amortised over the terms of the policies as premium is earned;

- For long-term insurance contracts, DAC is amortised in line with premium revenue using assumptions consistent with those used in calculating future policy benefit liabilities; and

- For long-term investment contracts, DAC is amortised over a period of four years.

3.18.7 Salvage and subrogation reimbursements

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

3.18.8 Liability adequacy test

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.19 Taxation

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

3.20 Islamic financing and investment products

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

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

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

(i) Definitions

The following terms are used in Islamic financing:

Murabaha

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

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

Ijarah

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(i) Definitions (continued)

Istisna'

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

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

Mudaraba

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

Wakala

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

(ii) Accounting policy

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.20 Islamic financing and investment products (continued)

(iii) Revenue recognition policy

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

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

Murabaha

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

Ijara

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

Mudaraba

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

Wakala

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

(iv) Islamic customers' deposits and distributions to depositors

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

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

Mashreqbank PSC Group

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

3 Summary of significant accounting policies (continued)

3.21 Provision for employees' end of service indemnity

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

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

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

3.22 Acceptances

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

3.23 Cash and cash equivalents

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

4 Critical accounting judgements and key sources of estimation uncertainty

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

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

Mashreqbank PSC Group

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

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

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

4.1 Measurement of the expected credit loss allowance

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

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

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

4.2 Fair value of financial instruments

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

4.3 Derivative financial instruments

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

Mashreqbank PSC Group

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

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

4.4 The ultimate liability arising from claims made under insurance contracts

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

5 Cash and balances with central banks

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

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

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

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

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

Mashreqbank PSC Group

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

6 Deposits and balances due from banks

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

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

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

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

(c) *Allowance for impairment movement:*

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

Mashreqbank PSC Group

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

7 Other financial assets

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

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

Mashreqbank PSC Group

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

7 Other financial assets (continued)

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

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

7 Other financial assets (continued)

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

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

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

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

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

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

Mashreqbank PSC Group

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

8 Loans and advances measured at amortised cost

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

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

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

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

Mashreqbank PSC Group

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

8 Loans and advances measured at amortised cost (continued)

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

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

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

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

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

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

Mashreqbank PSC Group

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

8 Loans and advances measured at amortised cost (continued)

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

9 Islamic financing and investment products measured at amortised cost

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

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

Mashreqbank PSC Group

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

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

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

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

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

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

Mashreqbank PSC Group

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

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

(d) Allowance for impairment movement:

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

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

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

Mashreqbank PSC Group

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

10 Other assets

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

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

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

11 Investment properties

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

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

Mashreqbank PSC Group

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

11 Investment properties (continued)

Valuation processes

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

Valuation techniques underlying management's estimation of fair value

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

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

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

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

Mashreqbank PSC Group

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

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 as AED
Cost				
At 1 January 2019	845,860	409,611	163,780	
Initial application of IFRS 16	-	-	-	234
Additions during the year	-	55,001	43,809	18
Transfers	(211,024)	1,363	140	
Disposals/write-offs/elimination	(3,333)	(135,054)	(55,435)	(61
At 31 December 2019	**631,503**	**330,921**	**152,294**	**192**
Additions during the year	**-**	**48,692**	**96,644**	**4**
Transfers	**532,928**	**100,192**	**113,061**	
Disposals/write-offs/elimination	**(7,924)**	**(35,919)**	**(135,768)**	**(39**
At 31 December 2020	**1,156,507**	**443,886**	**226,231**	**195**
Accumulated depreciation and impairment				
At 1 January 2019	187,916	298,657	95,311	
Initial application of IFRS 16	-	-	-	96
Charge for the year (Note 32)	18,848	44,691	29,173	56
Disposals/write-offs	(3,333)	(131,042)	(50,412)	(61
At 31 December 2019	**203,431**	**212,306**	**74,072**	**91**
Charge for the year (Note 32)	**22,878**	**46,279**	**33,865**	**52**
Disposals/write-offs/elimination	**(3,085)**	**(30,657)**	**(63,921)**	**(39**
At 31 December 2020	**223,224**	**227,928**	**44,016**	**104**
Carrying amount				
At 31 December 2020	**933,283**	**215,958**	**182,215**	**9**
At 31 December 2019	428,072	118,615	78,222	100

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

Mashreqbank PSC Group

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

13 Intangible assets

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

Mashreqbank PSC Group

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

14 Deposits and balances due to banks

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

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

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

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

15 Repurchase agreements with banks

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

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

16 Customers' deposits

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

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

Mashreqbank PSC Group

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

16 Customers' deposits (continued)

(b) Analysis by industry sector:

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

17 Islamic customers' deposits

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

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

(b) Analysis by industry sector:

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

Mashreqbank PSC Group

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

18 Other liabilities

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

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

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

Mashreqbank PSC Group

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

19 Medium-term loans

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

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

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

Medium term notes are denominated in following currencies:

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

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

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

Mashreqbank PSC Group

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

20 Insurance contract liabilities and reinsurance contract assets

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

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

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

Mashreqbank PSC Group

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

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 th

	2020			
	Gross AED'000	Reinsurance AED'000	Net AED'000	Gro AED'0
At 1 January	**2,438,081**	**(1,841,540)**	**596,541**	2,198,0
Claims incurred during the year	**2,772,951**	**(1,668,815)**	**1,104,136**	2,603,5
Claims settled during the year	**(2,283,953)**	**1,327,160**	**(956,793)**	(2,363,5
At 31 December	**2,927,079**	**(2,183,195)**	**743,884**	2,438,0

20.2 Movement in life assurance fund

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

20. 3 Movement in unit linked liabilities

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

Mashreqbank PSC Group

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

20 Insurance contract liabilities and reinsurance contract assets
(continued)

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

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

21 Issued and paid up capital and reserves

(a) Issued and paid up capital

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

(b) Statutory and legal reserves

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

(c) General reserve

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

Mashreqbank PSC Group

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

21 Issued and paid up capital and reserves (continued)

(d) Currency translation reserve

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

(e) Investments revaluation reserve

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

(f) Cash flow hedge reserve

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

(g) Dividends on equity instruments

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

Mashreqbank PSC Group

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

22 Non-controlling interests

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

23 Contingent liabilities and commitments

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

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

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

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

Mashreqbank PSC Group

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

24 Interest income

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

25 Income from Islamic financing and investment products

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

26 Interest expense

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

27 Distribution to depositors – Islamic products

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

Mashreqbank PSC Group

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

28 Net fee and commission income

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

29 Net investment income

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

Mashreqbank PSC Group

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

30 Other income, net

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

31 Allowances for impairment, net

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

32 General and administrative expenses

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

Mashreqbank PSC Group

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

33 (Loss) / earnings per share

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

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

34 Proposed dividends

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

35 Cash and cash equivalents

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

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

Mashreqbank PSC Group

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

36 Investment in subsidiaries and associates

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

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

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (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/(loss) allocated to non-controlling interest		Accumulated non-controlling interests	
	2020	2019	**2020**	2019
	AED'000	AED'000	**AED'000**	AED'000
Oman Insurance Company (PSC) Group	**72,330**	71,038	**748,973**	705,110
Individually immaterial subsidiaries with non - controlling interests	**245**	(90)	**8,707**	5,238
	72,575	70,948	**757,680**	710,348

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

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

Mashreqbank PSC Group

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

36 Investment in subsidiaries and associates (continued)

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

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

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

Mashreqbank PSC Group

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

37 Related party transactions

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

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

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

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

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

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

Mashreqbank PSC Group

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

38 Concentration of assets, liabilities and off balance sheet items

(a) Geographic regions

	31 December 2020			
	Assets	Liabilities	Letter of credit and guarantees	Assets
	AED'000	AED'000	AED'000	AED'0
UAE.	**87,839,540**	**72,494,789**	**31,227,767**	87,292,0
Other Middle East Countries	**27,550,381**	**24,881,814**	**6,145,460**	27,708,1
O.E.C.D.	**17,423,643**	**21,325,242**	**5,301,288**	20,500,9
Others	**25,709,676**	**19,632,987**	**6,831,333**	23,929,8
	158,523,240	**138,334,832**	**49,505,848**	159,430,9

(b) Industry Sectors

	31 December 2020			
	Assets	Liabilities	Letter of credit and guarantees	Assets
	AED'000	AED'000	AED'000	AED'0
Government and public sector	**28,620,730**	**6,502,837**	**234,787**	24,272,0
Commercial & business	**54,486,979**	**65,843,185**	**38,604,914**	63,308,0
Personal	**15,180,851**	**18,869,364**	**407,917**	15,698,5
Financial institutions	**58,659,697**	**46,260,813**	**10,198,730**	54,577,7
Others	**1,574,983**	**858,633**	**59,500**	1,574,7
	158,523,240	**138,334,832**	**49,505,848**	159,430,9

Mashreqbank PSC Group

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

39 Segmental information

Reportable segments

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

Reportable segments

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

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

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

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

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

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

Mashreqbank PSC Group

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

39 Segmental information (continued)

Reportable segments (continued)

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

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

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

Mashreqbank PSC Group

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

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2020			
	Corporate & Investment banking AED'000	Retail AED'000	Treasury & capital markets AED'000	International banking AED'000
Net interest income and earnings from Islamic products	**1,011,205**	**1,011,610**	**(40,898)**	**299,016**
Fee, commission and other income, net	**608,647**	**528,710**	**691,418**	**185,770**
Operating income	**1,619,852**	**1,540,320**	**650,520**	**484,786**
General and administrative expenses				
Operating profit before impairment				
Allowances for impairment, net				
Loss before tax				
Tax expense				
Loss for the year				
Attributable to:				
Owners of the Parent				
Non-controlling interests				
Segment Assets	**59,657,530**	**17,073,297**	**42,811,800**	**11,915,327**
Segment Liabilities	**52,280,170**	**32,903,933**	**20,909,575**	**10,986,188**

Mashreqbank PSC Group

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

39 Segmental information (continued)

Reportable segments (continued)

	31 December 2019				
	Corporate & Investment banking AED'000	**Retail** AED'000	**Treasury & capital markets** AED'000	**International banking** AED'000	**Ins** AI
Net interest income and earnings from Islamic products	1,421,931	1,213,327	242,340	303,807	
Fee, commission and other income, net	733,040	599,442	445,524	203,330	4
Operating income	2,154,971	1,812,769	687,864	507,137	5
General and administrative expenses					
Operating profit before impairment					
Allowances for impairment, net					
Profit before tax					
Tax expense					
Profit for the year					
Attributable to:					
Owners of the Parent					
Non-controlling interests					
Segment Assets	63,866,899	17,065,798	38,357,176	12,384,411	7,(
Segment Liabilities	56,767,407	27,176,632	23,366,356	10,312,515	5,1

Mashreqbank PSC Group

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

39 Segmental information (continued)

Geographical information

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

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

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

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

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

Revenue from major products and services

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

Information about major customers

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

Mashreqbank PSC Group

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

40 Classification of financial assets and liabilities

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

Mashreqbank PSC Group

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

40 Classification of financial assets and liabilities (continued)

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

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

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

Mashreqbank PSC Group

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

41 Derivatives

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

41 Derivatives (continued)

31 December 2020

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to m Up to 3 months AED'000	 3 – 6 months AED'000	 A
Derivatives held for trading:						
Forward foreign exchange contract	627,625	472,924	75,256,538	55,598,286	7,754,686	3
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	
Credit default swaps	-	240	55,095	-	-	
Futures contracts purchased (Customer)	538	-	67,125	43,371	20,259	
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	
Futures contracts sold (Bank)	35	538	154,865	85,194	20,259	
Total	**1,406,654**	**1,250,630**	**110,463,921**	**57,025,607**	**8,605,165**	**4**
Derivatives held as fair value and cash flow hedge:						
Cross-currency swap	105,759	42,154	2,123,671	-	-	
Total	1,512,413	1,292,784	112,587,592	57,025,607	8,605,165	4

Mashreqbank PSC Group

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

41 Derivatives (continued)

31 December 2019

	Positive fair value AED'000	Negative fair value AED'000	Notional amount AED'000	Notional amount by term to m Up to 3 months AED'000	3 – 6 months AED'000	A
Derivatives held for trading:						
Forward foreign exchange contract	182,794	137,240	61,442,635	41,853,980	4,846,893	2
Foreign exchange options (bought)	-	6,311	3,879,499	649,849	1,258,064	1
Foreign exchange options (sold)	12,350	-	3,829,830	649,849	1,208,395	1
Interest rate swaps	440,909	438,099	20,342,094	135,216	118,411	1
Credit default swaps	148	-	11,723	-	-	
Futures contracts purchased (Customer)	703	-	38,731	29,354	9,377	
Futures contracts sold (Customer)	-	1,277	70,805	66,461	4,344	
Futures contracts sold (Bank)	1,277	-	70,805	66,461	4,344	
Futures contracts purchased (Bank)	-	703	38,731	29,354	9,377	
Total	638,181	583,630	89,724,853	43,480,524	7,459,205	7
Derivatives held as fair value and cash flow hedge:						
Cross-currency swap	29,200	23,384	1,605,773	-	-	
Total	667,381	607,014	91,330,626	43,480,524	7,459,205	7

Mashreqbank PSC Group

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

42 Capital management

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

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

Regulatory capital

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

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

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

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

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

Mashreqbank PSC Group

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

42 Capital management (continued)

Regulatory capital (continued)

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

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

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

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

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

Mashreqbank PSC Group

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

42 Capital management (continued)

Regulatory capital (continued)

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

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

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

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

Mashreqbank PSC Group

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

42 Capital management (continued)

Regulatory capital (continued)

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

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

Mashreqbank PSC Group

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

42 Capital management (continued)

Regulatory capital (continued)

Capital allocation

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

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

Mashreqbank PSC Group

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

43 Risk management

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

The Group is exposed to the following material risks:

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

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

Risk Management Framework

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Risk Management Framework (continued)

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

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

Capital Management

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Risk Appetite & Stress Testing

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

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

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

Internal Capital Adequacy Assessment Process (ICAAP)

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

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

Credit risk management

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

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

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

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

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

Credit risk grading

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Credit risk grading (continued)

Borrower risk ratings are mapped into the following 5 Grades:

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

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

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

Expected credit loss measurement

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Expected credit loss measurement (continued)

Significant increase in credit risk (SICR)

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

Quantitative criteria

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

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Qualitative criteria:

Corporate Loans

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

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

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

Backstop:

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

Definition of default and credit-impaired assets

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

Quantitative criteria

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Definition of default and credit-impaired assets (continued)

Qualitative criteria:

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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.

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

Forward looking information incorporated in the ECL models

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

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Sensitivity analysis

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Maximum exposure to credit risk – Financial instruments subject to impairment

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

	2020					
	Stage 1	Stage 2	Stage 3		Stage 1	
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**	**L A**
Cash and balances with Central Bank	**17,941,941**	**-**	**-**	**17,941,941**	20,939,700	
Loss allowance	**-**	**-**	**-**	**-**	-	
Carrying amount	**17,941,941**	**-**	**-**	**17,941,941**	20,939,700	
Deposits and balances due from banks						
Investment-grade	**7,217,923**	**117,961**	**-**	**7,335,884**	6,722,691	
BB+ & below	**5,598,832**	**2,926,065**	**-**	**8,524,897**	5,625,956	
Unrated	**9,978,354**	**2,480,994**	**85,023**	**12,544,371**	12,999,473	1,
	22,795,109	**5,525,020**	**85,023**	**28,405,152**	25,348,120	1,
Loss allowance	**(69,256)**	**(41,409)**	**(55,457)**	**(166,122)**	(89,419)	
Carrying amount	**22,725,853**	**5,483,611**	**29,566**	**28,239,030**	25,258,701	1,

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

	2019			
	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	8,052,760	-	-	8,052,760
BB+ & below	1,583,518	1,009,106	-	2,592,624
Unrated	253,929	-	2,205	256,134
	9,890,207	1,009,106	2,205	10,901,518
Loss allowance	(19,047)	(5,113)	(2,205)	(26,365)
Carrying amount	9,871,160	1,003,993	-	10,875,153
Other financial assets measured at FVTOCI				
Investment-grade	2,197,921	-	-	2,197,921
BB+ & below	267,224	-	-	267,224
Unrated	1,980	-	-	1,980
	2,467,125	-	-	2,467,125
Loss allowance	(872)	-	-	(872)
Carrying amount	2,466,253	-	-	2,466,253

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

43 Risk management (continued)

Credit risk management (continued)

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

Credit risk exposures relating to on-balance sheet assets are as follows:	2020 Stage 1 12-month AED'000	2020 Stage 2 Lifetime AED'000	2020 Stage 3 Lifetime AED'000	2020 Total AED'000	Stage 1 12-month AED'000
Other assets	**-**	**585,565**	**428,432**	**1,013,997**	-
Loss allowance	**-**	**(17,789)**	**(413,188)**	**(430,977)**	-
Carrying amount	**-**	**567,776**	**15,244**	**583,020**	-
Acceptances	**12,680,894**	**86,567**	**-**	**12,767,461**	12,749,871
Loss allowance	**(25,277)**	**(1,021)**	**-**	**(26,298)**	(15,236)

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

	2020					
	Stage 1	Stage 2	Stage 3		Stage 1	
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	A
Letters of credit	**7,772,256**	**1,396,332**	**67,013**	**9,235,601**	7,634,816	
Guarantees	**35,097,006**	**2,858,541**	**2,314,700**	**40,270,247**	40,882,679	3,
Undrawn credit commitments -Irrevocable	**6,244,126**	**3,556**	**-**	**6,247,682**	6,963,757	
	49,113,388	**4,258,429**	**2,381,713**	**55,753,530**	55,481,252	3,
Loss allowance	**(66,481)**	**(50,963)**	**(325,000)**	**(442,443)**	(83,863)	

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

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

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

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

Risk management in the current economic scenario

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

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

COVID-19 impact on measurement of ECL

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

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

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

The outcome of the review is as follows:

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

COVID-19 impact on measurement of ECL (continued)

The summary of customers benefiting from deferrals is as follows:

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

Reasonableness of ECL estimates under COVID-19 crisis

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Risk management in the current economic scenario (continued)

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Credit risk management (continued)

Collateral and other credit enhancements

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

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

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

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Mashreqbank PSC Group

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

43 Risk management (continued)

Loss allowance

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

	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**
Deposits and balances due from banks					
Loss allowance as at 1 January	**89,419**	**5,963**	**13,220**	**108,602**	50,817
Transfers					
Transfer from Stage 1 to Stage 2	**(41,366)**	**41,366**	**-**	**-**	(5,773)
Transfer from Stage 1 to Stage 3	**-**	**-**	**-**	**-**	-
Transfer from Stage 2 to Stage 1	**3**	**(3)**	**-**	**-**	-
New financial assets originated	**108,536**	**-**	**-**	**108,536**	92,732
Changes in PDs/LGDs/EADs	**(87,336)**	**(5,917)**	**42,237**	**(51,016)**	(48,357)
Write-offs	**-**	**-**	**-**	**-**	-
Loss allowance as at 31 December	**69,256**	**41,409**	**55,457**	**166,122**	89,419

Mashreqbank PSC Group

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

43 Risk management (continued)

Loss allowance (continued)

	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**
Loans and advances measured at amortised cost					
Loss allowance as at 1 January	**435,818**	**1,498,488**	**1,910,065**	**3,844,371**	393,497
Transfers					
Transfer from Stage 1 to Stage 2	**(394,706)**	**394,706**	**-**	**-**	(66,593)
Transfer from Stage 1 to Stage 3	**(30,878)**	**-**	**30,878**	**-**	(7,188)
Transfer from Stage 2 to Stage 1	**12,720**	**(12,720)**	**-**	**-**	10,973
Transfer from Stage 2 to Stage 3	**-**	**(96,221)**	**96,221**	**-**	-
Transfer from Stage 3 to Stage 2	**-**	**155**	**(155)**	**-**	-
New financial assets originated	**592,872**	**-**	**-**	**592,872**	308,961
Changes in PDs/LGDs/EADs	**(59,062)**	**490,204**	**1,671,469**	**2,102,611**	(203,832)
Write-offs	**-**	**-**	**(1,136,228)**	**(1,136,228)**	-
Loss allowance as at 31 December	**556,764**	**2,274,612**	**2,572,250**	**5,403,626**	435,818

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

43 Risk management (continued)

Loss allowance (continued)

	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
Islamic financing and investment products measured at amortised cost					
Loss allowance as at 1 January	**39,795**	**6,151**	**82,644**	**128,590**	51,293
Transfers				**-**	
Transfer from Stage 1 to Stage 2	**(11,818)**	**11,818**	**-**	**-**	(1,083)
Transfer from Stage 1 to Stage 3	**(4,001)**	**-**	**4,001**	**-**	(6,958)
Transfer from Stage 2 to Stage 1	**6**	**(6)**	**-**	**-**	99
Transfer from Stage 2 to Stage 3	**-**	**(4,179)**	**4,179**	**-**	-
New financial assets originated	**42,916**	**-**	**-**	**42,916**	22,998
Changes in PDs/LGDs/EADs	**(8,786)**	**(1,254)**	**307,465**	**297,425**	(26,554)
Write-offs	**-**	**-**	**(61,601)**	**(61,601)**	-
Loss allowance as at 31 December	**58,112**	**12,530**	**336,688**	**407,330**	39,795

Mashreqbank PSC Group

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

43 Risk management (continued)

Loss allowance (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Loss allowance (continued)

	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**
Other assets					
Loss allowance as at 1 January	**-**	**20,769**	**437,100**	**457,869**	-
Transfers					
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-
Changes in PDs/LGDs/EADs	**-**	**(2,960)**	**15,839**	**12,879**	-
Write-offs	**-**	**(20)**	**(39,751)**	**(39,771)**	-
Loss allowance as at 31 December	**-**	**17,789**	**413,188**	**430,977**	-

Mashreqbank PSC Group

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

43 Risk management (continued)

Loss allowance (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Gross carrying amount

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Gross carrying amount (continued)

	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
Deposits and balances due from banks					
Gross carrying amount as at 1 January	**25,348,120**	**1,288,001**	**38,329**	**26,674,450**	22,284,395
Transfers					
Transfer from Stage 1 to Stage 2	**(5,326,464)**	**5,326,464**	**-**	**-**	(1,272,567)
Transfer from Stage 2 to Stage 1	**1,415**	**(1,415)**	**-**	**-**	-
New financial assets originated	**25,956,861**	**-**	**-**	**25,956,861**	24,787,948
Repayments and other movements	**(23,184,822)**	**(1,088,031)**	**46,694**	**(24,226,159)**	(20,451,656)
Gross carrying amount as at 31 December	**22,795,110**	**5,525,019**	**85,023**	**28,405,152**	25,348,120

Mashreqbank PSC Group

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

43 Risk management (continued)

Gross carrying amount (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Gross carrying amount (continued)

	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**
Loans and advances measured at amortised cost					
Gross carrying amount as at 1 January	**57,261,500**	**5,141,967**	**3,151,181**	**65,554,648**	52,564,482
Transfers					
Transfer from Stage 1 to Stage 2	**(3,922,161)**	**3,922,161**	**-**	**-**	(2,601,861)
Transfer from Stage 1 to Stage 3	**(420,580)**	**-**	**420,580**	**-**	(309,396)
Transfer from Stage 2 to Stage 3	**-**	**(928,334)**	**928,334**	**-**	-
Transfer from Stage 3 to Stage 2	**-**	**1,249**	**(1,249)**	**-**	-
Transfer from Stage 2 to Stage 1	**378,362**	**(378,362)**	**-**	**-**	641,947
New financial assets originated	**34,226,398**	**-**	**-**	**34,226,398**	31,611,942
Repayments and other movements	**(33,715,915)**	**(2,452,731)**	**213,865**	**(35,954,781)**	(24,645,614)
Write-offs	**-**	**-**	**(1,136,228)**	**(1,136,228)**	-
Gross carrying amount as at 31 December	**53,807,604**	**5,305,950**	**3,576,483**	**62,690,037**	57,261,500

Mashreqbank PSC Group

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

43 Risk management (continued)

Gross carrying amount (continued)

	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**
Islamic financing and other investments measured at amortised cost					
Gross carrying amount as at 1 January	**13,718,735**	**532,172**	**334,440**	**14,585,347**	12,196,796
Transfers					
Transfer from Stage 1 to Stage 2	**(211,891)**	**211,891**	**-**	**-**	(348,697)
Transfer from Stage 1 to Stage 3	**(367,862)**	**-**	**367,862**	**-**	(25,795)
Transfer from Stage 2 to Stage 3	**-**	**(65,008)**	**65,008**	**-**	-
Transfer from Stage 2 to Stage 1	**10,679**	**(10,679)**	**-**	**-**	15,519
New financial assets originated	**7,880,139**	**-**	**-**	**7,880,139**	9,023,025
Repayments and other movements	**(7,728,481)**	**(376,952)**	**355,221**	**(7,750,212)**	(7,142,113)
Write-offs	**-**	**-**	**(61,601)**	**(61,601)**	-
Gross carrying amount as at 31 December	**13,301,319**	**291,424**	**1,060,930**	**14,653,673**	13,718,735

Mashreqbank PSC Group

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

43 Risk management (continued)

Gross carrying amount (continued)

	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**
Other assets					
Gross carrying amount as at 1 January	**-**	**597,644**	**459,230**	**1,056,874**	-
Transfers		**-**	**-**	**-**	
Transfer from Stage 2 to Stage 3	**-**	**-**	**-**	**-**	-
Repayments and other movements	**-**	**(12,059)**	**8,953**	**(3,106)**	-
Write-offs	**-**	**(20)**	**(39,751)**	**(39,771)**	
Gross carrying amount as at 31 December	**-**	**585,565**	**428,432**	**1,013,997**	-
Acceptances					
Gross carrying amount as at 1 January	**12,749,871**	**153,212**	**-**	**12,903,083**	9,731,526
Transfers					
Transfer from Stage 1 to Stage 2	**(91,840)**	**91,840**	**-**	**-**	(150,146)
Transfer from Stage 2 to Stage 1	**394**	**(394)**	**-**	**-**	
New financial assets originated	**13,132,880**	**-**	**-**	**13,132,880**	12,847,188
Repayments and other movements	**(13,110,411)**	**(158,091)**	**-**	**(13,268,502)**	(9,678,697)
Gross carrying amount as at 31 December	**12,680,894**	**86,567**	**-**	**12,767,461**	12,749,871

43 Risk management (continued)

Gross carrying amount (continued)

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Write-off policy

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

Modification of financial assets

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

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

Operational risk management

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Operational Risk Governance

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

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

Operational risk management follows three lines of defence model;

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

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

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

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

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

Operational Risk Appetite

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Operational Risk Management Framework

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Incident management

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

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

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

Market risk management

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Market risk management (continued)

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

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

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

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

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

Libor transition

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Interest rate risk management

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

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

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

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

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

Mashreqbank PSC Group

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

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	O y AI
31 December 2020					
Assets					
Cash and balances with central banks	8,392,028	2,000,000	2,000,000	-	
Deposits and balances due from banks	14,328,592	4,158,303	3,804,056	389,681	
Other financial assets measured at fair value	581,385	37,170	2,547,845	937,238	3
Other financial assets measured at amortised cost	411,012	1,218,138	2,397,772	3,627,965	3
Loans and advances measured at amortised cost	44,142,598	2,244,840	1,873,136	3,433,364	3
Islamic financing and investment products measured at amortised cost	11,757,598	233,106	169,835	438,141	1
Acceptances	-	-	-	-	
Other assets	-	-	-	-	
Reinsurance contract assets	-	-	-	-	
Investment in associate	-	-	-	-	
Investment properties	-	-	-	-	
Property and equipment	-	-	-	-	
Intangible assets	-	-	-	-	
Total assets	79,613,213	9,891,557	12,792,644	8,826,389	11

Mashreqbank PSC Group

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

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2020	**Within 3 months AED'000**	**Over 3 to 6 months AED'000**	**Over 6 to 12 months AED'000**	**Over 1 to 5 years AED'000**	**Ov y AED**
Liabilities and equity					
Deposits and balances due to banks	**4,963,548**	**1,994,543**	**1,782,565**	**-**	
Repurchase agreements with banks	**56,819**	**25,950**	**80,273**	**1,373,681**	
Customers' deposits	**22,251,958**	**6,771,925**	**8,094,963**	**1,911,872**	**3**
Islamic customers' deposits	**4,307,813**	**1,800,117**	**1,344,326**	**2,090,995**	
Acceptances	**-**	**-**	**-**	**-**	
Other liabilities	**-**	**-**	**-**	**-**	
Medium-term loans	**378,750**	**1,274,114**	**603,865**	**6,799,541**	
Insurance contract liabilities	**-**	**-**	**-**	**-**	
Equity attributable to shareholders of the Parent	**-**	**-**	**-**	**-**	
Non-controlling interest	**-**	**-**	**-**	**-**	
Total liabilities and equity	**31,958,888**	**11,866,649**	**11,905,992**	**12,176,089**	**3**
On balance sheet gap	**47,654,324**	**(1,975,092)**	**886,653**	**(3,349,700)**	**11,3**
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**	**54,5**

Mashreqbank PSC Group

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

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	A
31 December 2019					
Assets					
Cash and balances with central banks	11,567,286	-	-	-	
Deposits and balances due from banks	14,252,579	5,951,926	1,996,293	449,010	
Other financial assets measured at fair value	181,732	275,331	220,714	787,653	1
Other financial assets measured at amortised cost	1,217,204	447,998	408,761	5,159,305	3
Loans and advances measured at amortised cost	41,650,451	5,434,545	2,143,368	5,372,882	5
Islamic financing and investment products measured at amortised cost	11,807,432	124,604	228,056	1,034,134	1
Acceptances	-	-	-	-	
Other assets	-	-	-	-	
Reinsurance contract assets	-	-	-	-	
Investment in associate	-	-	-	-	
Investment properties	-	-	-	-	
Property and equipment	-	-	-	-	
Intangible assets	-	-	-	-	
Total assets	80,676,684	12,234,404	4,997,192	12,802,984	12

Mashreqbank PSC Group

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

43 Risk management (continued)

Interest rate risk management (continued)

Interest rate repricing analysis (continued)

31 December 2019	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000	O AE
Liabilities and equity					
Deposits and balances due to banks	4,696,741	1,341,611	1,136,905	-	
Repurchase agreements with banks	377,572	710,965	-	-	
Customers' deposits	24,095,523	9,370,265	11,658,406	2,218,928	3
Islamic customers' deposits	6,123,879	1,367,784	729,859	4,478,684	
Acceptances	-	-	-	-	
Other liabilities	-	-	-	-	
Medium-term loans	1,651,848	1,810,574	944,430	6,906,205	
Insurance contract liabilities	-	-	-	-	
Equity attributable to shareholders of the Parent	-	-	-	-	
Non-controlling interest	-	-	-	-	
Total liabilities and equity	36,945,563	14,601,199	14,469,600	13,603,817	4
On balance sheet gap	43,731,121	(2,366,795)	(9,472,408)	(800,833)	11,7
Off balance sheet gap	(873,724)	749,120	96,540	30,640	(
Cumulative interest rate sensitivity gap	42,857,397	41,239,722	31,863,854	31,093,661	42,8

Mashreqbank PSC Group

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

43 Risk management (continued)

Currency risk management

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

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

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

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

Liquidity risk management

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Liquidity risk management (continued)

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

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Liquidity risk management (continued)

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Liquidity risk management (continued)

b) Gap limits

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

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

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

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

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

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

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

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

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

Mashreqbank PSC Group

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

43 Risk management (continued)

Liquidity risk management (continued)

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

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

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

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

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

Mashreqbank PSC Group

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

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 maturity date.

Maturity profile:

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

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000
Assets				
Cash and balances with central banks	13,941,941	2,000,000	2,000,000	-
Deposits and balances due from banks	18,949,322	3,467,761	4,951,682	870,265
Other financial assets measured at fair value	1,153,708	37,170	2,547,845	937,238
Other financial assets measured at amortised cost	411,012	1,233,765	2,396,924	3,626,681
Loans and advances measured at amortised cost	18,822,621	4,143,633	4,078,018	15,692,258
Islamic financing and investment products measured at amortised cost	5,932,170	1,314,330	400,708	2,588,022
Acceptances	2,816,593	3,876,726	5,768,024	306,118
Other assets	2,039,170	250,057	864,649	137,428
Reinsurance contract assets	795,598	502,291	583,966	965,161
Investment in associate	-	-	-	-
Investment properties	-	-	-	-
Property and equipment	-	-	-	-
Intangible assets	-	-	-	-
Total assets	64,862,135	16,825,733	23,591,816	25,123,171

Mashreqbank PSC Group

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

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 5 yea AED'0
Liabilities and equity				
Deposits and balances due to banks	**11,067,272**	**1,994,544**	**1,782,564**	
Repurchase agreements with banks	**809,819**	**25,950**	**80,273**	**1,373,**
Customers' deposits	**59,164,753**	**6,895,909**	**8,028,747**	**1,930,**
Islamic customers' deposits	**6,609,923**	**1,800,117**	**1,383,530**	**2,090,**
Acceptances	**2,816,593**	**3,876,726**	**5,768,024**	**306,**
Other liabilities	**4,273,745**	**350,012**	**696,971**	**357,**
Medium-term loans	**347,374**	**1,274,114**	**603,865**	**7,350,**
Insurance contract liabilities	**1,424,304**	**787,458**	**826,343**	**1,270,**
Equity attributable to shareholders of the Parent	**-**	**-**	**-**	
Non-controlling interest	**-**	**-**	**-**	
Total liabilities and equity	**86,513,783**	**17,004,830**	**19,170,317**	**14,679,**
Guarantees	**7,379,488**	**2,384,489**	**7,274,352**	**10,154,**
Letters of credit	**5,395,946**	**1,835,813**	**1,452,649**	**551,**
Total	**12,775,434**	**4,220,302**	**8,727,001**	**10,705,**

Mashreqbank PSC Group

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

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

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

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 to 5 years AED'000
Assets				
Cash and balances with central banks	20,939,242	-	458	
Deposits and balances due from banks	16,878,597	5,322,200	3,233,051	962,20
Other financial assets measured at fair value	758,792	275,361	221,005	787,82
Other financial assets measured at amortised cost	1,209,720	468,749	408,761	5,159,30
Loans and advances measured at amortised cost	18,553,883	7,696,357	3,697,801	17,394,15
Islamic financing and investment products measured at amortised cost	6,359,711	1,679,014	405,699	2,292,98
Acceptances	1,213,171	3,045,453	8,415,774	228,68
Other assets	2,084,518	208,537	-	287,52
Reinsurance contract assets	-	-	2,555,420	30,49
Investment in associate	-	-	-	
Investment properties	-	-	-	
Property and equipment	-	-	-	
Intangible assets	-	-	-	
Total assets	67,997,634	18,695,671	18,937,969	27,143,19

Mashreqbank PSC Group

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

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

Liabilities and equity	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 t 5 year AED'00
Deposits and balances due to banks	8,652,705	1,341,611	1,136,905	53,2
Repurchase agreements with banks	377,572	710,965	-	
Customers' deposits	51,827,308	9,645,635	12,017,534	2,559,9
Islamic customers' deposits	7,951,633	1,367,785	729,859	4,478,6
Acceptances	1,213,171	3,045,453	8,415,774	228,6
Other liabilities	3,351,440	617,665	438,711	281,8
Medium-term loans	1,615,542	1,810,574	982,405	7,392,7
Insurance contract liabilities	-	-	3,748,666	505,1
Equity attributable to shareholders of the Parent	-	-	-	
Non-controlling interest	-	-	-	
Total liabilities and equity	74,989,371	18,539,688	27,469,854	15,500,3
Guarantees	6,262,848	3,219,797	6,285,102	13,149,
Letters of credit	4,156,613	1,498,968	926,690	1,263,
Total	10,419,461	4,718,765	7,211,792	14,412,

Mashreqbank PSC Group

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

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile of Group's liabilities based on contractual undiscounte
December 2020.

Liabilities and equity	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 5 ye AED'(
Deposits and balances due to banks	11,067,272	1,994,544	1,782,564	
Repurchase agreements with banks	809,819	25,950	80,273	1,373,
Customers' deposits	59,267,776	6,953,113	8,092,559	2,478,
Islamic customers' deposits	6,704,920	1,921,464	1,508,680	2,094,
Acceptances	2,816,593	3,876,726	5,768,024	306,
Other liabilities	3,636,540	350,012	696,971	357,
Medium-term loans	348,671	1,280,771	681,984	7,355,
Insurance contract liabilities	1,424,304	787,458	826,343	1,270,
Equity attributable to shareholders of the Parent	-	-	-	
Non-controlling interest	-	-	-	
Total liabilities and equity	**86,075,895**	**17,190,038**	**19,437,398**	**15,235,**

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (co

43 Risk management (continued)

Liquidity risk management (continued)

Maturity profile: (continued)

The following table summarises the maturity profile of Group's liabilities based on contractual undiscounte
December 2019.

	Within 3 months AED'000	Over 3 to 6 months AED'000	Over 6 to 12 months AED'000	Over 1 5 ye AED'0
Liabilities and equity				
Deposits and balances due to banks	8,652,705	1,341,611	1,136,905	53,
Repurchase agreements with banks	377,572	710,965	-	
Customers' deposits	52,034,818	9,863,969	12,334,677	2,923,
Islamic customers' deposits	8,080,024	1,382,141	747,961	4,771,
Acceptances	1,213,171	3,045,453	8,415,774	228,
Other liabilities	3,351,440	617,665	438,711	281,
Medium-term loans	1,659,656	1,819,814	1,034,426	8,283
Insurance contract liabilities	-	-	3,748,666	505,
Equity attributable to shareholders of the Parent	-	-	-	
Non-controlling interest	-	-	-	
Total liabilities and equity	75,369,386	18,781,618	27,857,120	17,047

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Insurance Risk

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the nature of an insurance contract, this risk is random and therefore unpredictable. Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location and type of industry covered.

For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principal risk that the Group faces under its insurance contracts is that the actual claims and benefit payments exceed the estimated amount of the insurance liabilities. This could occur because the frequency or severity of claims and benefits are greater than estimated. Insurance events are random and the actual number and amount of claims and benefits will vary from year to year from the estimate established using statistical techniques.

Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be. In addition, a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The Group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted and within each of these categories to achieve a sufficiently large population of risks to reduce the variability of the expected outcome.
The Group manages risks through its underwriting strategy, adequate reinsurance arrangements and proactive claims handling. The underwriting strategy attempts to ensure that the underwritten risks are well diversified in terms of type and amount of risk, industry and geography. Underwriting limits are in place to enforce appropriate risk selection criteria.

The distribution of insurance contract liabilities and reinsurance contract assets as at 31 December 2020 and 31 December 2019 is as follows:

	2020 **AED'000**	2019 AED'000
Insurance contract liabilities		
UAE	**4,382,374**	3,805,193
Other Middle East countries	**365,405**	448,596
	4,747,779	4,253,789
Reinsurance contract assets		
UAE	**2,623,959**	2,257,168
Other Middle East countries	**267,961**	328,750
	2,891,920	2,585,918

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Insurance Risk (continued)

Frequency and Severity of Claims

The Group has the right not to renew individual policies, to re-price the risk, to impose deductibles and to reject the payment of a fraudulent claim. Insurance contracts also entitle the Group to pursue third parties for payment of some or all costs (for example, subrogation). Furthermore, the Group's strategy limits the total exposure to any one territory and the exposure to any one industry.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Insurance Risk (continued)

Sources of Uncertainty in the Estimation of Future Claim Payments

The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is likely that the final outcome will prove to be different from the original liability established. The amount of insurance claims is particularly sensitive to the level of court awards and to the development of legal precedent on matters of contract and tort. Insurance contracts are also subject to the emergence of new types of latent claims, but no allowance is included for this at the end of the reporting period. Where possible, the Group adopts multiple techniques to estimate the required level of provisions. This provides a greater understanding of the trends inherent in the experience being projected. The projections given by the various methodologies also assist in estimating the range of possible outcomes. The most appropriate estimation technique is selected taking into account the characteristics of the business class and the extent of the development of each accident year.

Assuming all the other factors remained constant; an impact of an increase / decrease of 1% in claims will result in corresponding increase/ decrease in net claims incurred by AED 16 million (2019: AED 16 million).

COVID-19 impact on insurance subsidiary of the Group

The Bank's insurance subsidiary ("subsidiary") assessed the impact of Covid-19 on business continuity, claims and reserving, control environment, credit risk, fair value of investment properties (refer to Note 11), impairment of financial investments measured at amortised cost, liquidity and solvency as explained below.

The subsidiary has enabled remote connectivity for 95% of its employees as part of its business continuity management initiative to ensure that there is no interruption to client servicing and operations. This has resulted in the subsidiary delivering service level commitments to its customers across multiple lines of business.

The subsidiary mainly noticed an increase in Health Care claims and Business Interruption claims due to COVID-19. The subsidiary is monitoring the loss experience and has appropriately enhanced its technical reserves as at 31 December 2020. The impact on life insurance was minimal as of the year end.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Insurance Risk (continued)

COVID-19 impact on insurance subsidiary of the Group

Since 2019, the subsidiary has developed a robust risk appetite framework and capital thresholds based on the pandemic risk and other risks stress scenarios. Having considered the impact of COVID-19, the subsidiary reassessed its control environment around fraud and information security to ensure adequate controls are in place and conducts more regular reviews on its reinsurers in relation to the counterparty credit ratings, financial metrics, credit outlook and changes to their structures, if any. Also, the subsidiary has updated its reinsurer security list in order to address the impact of COVID-19. The current security list has more than 92% of "A" rated reinsurance securities.

In parallel, the subsidiary continues to have a robust collection and credit control process. Further enhancement and development to strengthen the processes and credit controls have resulted in an efficient receivable management and reduced the credit cycle. Hence, despite the uncertain economic conditions, the subsidiary continued to have robust collections throughout the year. Also, the measures taken above have contributed to minimize the impact on the impairment provision recognised during the year.

Similarly, the subsidiary's investment portfolio measured at amortised cost has been assessed using a robust ECL model with updated inputs as of the reporting date and based on the results, the subsidiary had taken adequate provisions for impairment losses. These are not material as at 31 December 2020.

The liquidity position of the subsidiary remains strong. Furthermore, the subsidiary has carried out stress testing to assess the resilience of its solvency compliance, which also remains strong after considering the impact of the shocks. As the situation continues to develop, the subsidiary will continue to monitor the situation closely and take the necessary actions.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Compliance Risk

Compliance risk is the risk of an activity not being conducted in line with the applicable laws and regulations leading to reputational and/or financial losses. The Group manages compliance risk through a compliance function which is responsible for monitoring compliance of laws and regulations across the various jurisdictions in which the Group operates.

In 2015, the Bank became aware that certain US dollar payment processing activities involving Sudan may have potentially breached US sanction laws in effect at the time. The Bank has been proactively cooperating with the UAE and the US regulators in this regard and has appointed external legal advisors to assist in the review of these transactions, which occurred prior to March 2009, including compliance with US sanction laws as well as its own compliance processes. In 2018, the Bank formally submitted the findings of the review to the regulators in both the UAE and the US. The US regulators have reviewed the Bank's submission and discussions have been ongoing with the US regulators. Certain US regulators have concluded their reviews without levying any penalties and the bank is currently in negotiation in this respect with other US regulators. The Bank believes that given the sensitivity of this matter the foregoing disclosure adequately describes the current status of the negotiations with the concerned regulators.

The Group, on a continuous basis, identifies and assesses such risks and recognizes provisions, in consultation with its legal counsel, in accordance with note 3.13.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Fair value measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of financial assets and financial liabilities are determined using similar valuation techniques and assumptions as used for the year ended 31 December 2019.

Fair value of the Group's financial assets that are measured at fair value on recurring basis

Some of the Group's financial assets are measured at fair value at the end of the reporting period. The following table gives information about how the fair values of these financial assets are determined:

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (cont

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	**Fair value as at**			**Fair value hierarchy**	**Valuation techniques and key inputs**
	2020		2019		
	AED'000		AED'000		
Other financial assets measured at FVTPL					
Quoted debt investments	**19,431**		196,516	Level 1	Quoted bid prices in an active market
Quoted equity investments	**6,719**		14,990	Level 1	Quoted bid prices in an active market
Unquoted debt investments	**796,240**		679,779	Level 2	Based on the recent similar transaction in market
Mutual and other funds	**629,865**		599,310	Level 2	Quoted prices in secondary market.
Unquoted equity investments	**1,112**		245	Level 3	Net assets valuation method due to the unavailability of market and comparable financial information. Net assets values were determined based on the latest available audited/ historical financial information.
	1,453,367		1,490,840		

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (conti

43 Risk management (continued)

Fair value measurements (continued)

Other financial assets	**Fair value as at**		**Fair value hierarchy**	**Valuation techniques and key inputs**
	2020	2019		
	AED'000	AED'000		
Other financial assets measured at FVTOCI				
Quoted equity investments	**459,821**	501,480	Level 1	Quoted bid prices in an active market
Unquoted debt investments	**560,592**	561,693	Level 3	Based on the recent similar transaction in market
Quoted debt investments	**5,910,374**	1,904,560	Level 1	Quoted bid prices in an active market
Unquoted equity investments	**54,949**	63,593	Level 3	Comparable sales transactions with appropriate haircut, Discounted cash flows (DCF) and for very insignificant assets, net assets as per financial statements.
	6,985,736	3,031,326		
	8,439,103	4,522,166		

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Fair value measurements (continued)

There were no transfers between each of level during the year. There are no financial liabilities which should be categorised under any of the level in table above.

The movement in the level 3 financial assets were due to exchange differences and changes in fair value.

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTPL

	2020	2019
	AED'000	AED'000
At 1 January	**245**	55,315
Purchases	**2,505**	-
Disposals	**(1,646)**	-
Change in fair value	**8**	(55,070)
At 31 December	**1,112**	245

Reconciliation of Level 3 fair value measurement of financial assets measured at FVTOCI

	2020	2019
	AED'000	AED'000
At 1 January	**625,286**	192,869
Purchases	**-**	563,842
Disposals/matured	**(10,215)**	(153,087)
Change in fair value	**470**	21,662
At 31 December	**615,541**	625,286

All gain and losses included in consolidated statement of comprehensive income relate to unquoted investments in equity instruments held at the end of the reporting period and are reported as changes of 'investments revaluation reserve'.

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Fair value of financial instruments measured at amortised cost

Except as detailed in the following table, the management considers that the carrying amounts of financial assets and financial liabilities measured at amortised cost in the consolidated financial statements approximate their fair values as these are substantially short term in nature and carry market rates of interest.

	Carrying amount AED'000	**Fair value** **Level 1** AED'000	**Level 2** AED'000	**Level 3** AED'000	**Total** AED'000
31 December 2020					
Financial assets:					
Other financial assets measured at amortised cost	**11,000,654**	**7,600,395**	**1,556,552**	**2,169,181**	**11,326,128**
31 December 2019					
Financial assets:					
Other financial assets measured at amortised cost	10,875,153	8,628,850	1,140,947	1,327,665	11,097,462

	Carrying Amount AED'000	**Fair value** **Level 1** AED'000	**Level 2** AED'000	**Level 3** AED'000	**Total** AED'000
31 December 2020					
Financial liabilities					
Medium-term notes	**9,616,042**	**5,558,668**	**-**	**4,133,034**	**9,691,702**
31 December 2019					
Financial liabilities					
Medium-term notes	11,838,757	10,034,486	-	1,970,522	12,005,008

Mashreqbank PSC Group

Notes to the consolidated financial statements for the year ended 31 December 2020 (continued)

43 Risk management (continued)

Fair value measurements (continued)

Fair value sensitivity analysis

The following table shows the sensitivity of fair values to 1% increase or decrease as at 31 December 2020 and 31 December 2019:

	Reflected in consolidated statement of profit or loss		Reflected in consolidated statement of comprehensive income	
	Favourable change AED'000	Unfavourable change AED'000	Favourable change AED'000	Unfavourable change AED'000
31 December 2020				
Other financial assets measured at fair value	**14,534**	**(14,534)**	**69,857**	**(69,857)**
Derivatives	**1,560**	**(1,560)**	**636**	**(636)**
31 December 2019				
Other financial assets measured at fair value	14,908	(14,908)	30,313	(30,313)
Derivatives	546	(546)	58	(58)

Majority of the derivative financial instruments are back-to-back; therefore, any change to the fair value of the derivatives resulting from price input changes will have insignificant impact on the consolidated statement of profit or loss or consolidated statement of comprehensive income.

44 Foreign restricted assets

Net assets equivalent to AED 213 million as at 31 December 2020 (31 December 2019: AED 214 million) maintained by certain branches of the Bank, operating outside the UAE, are subject to exchange control regulations of the countries in which these branches operate.

45 Subsequent events

There have been no events subsequent to the statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended 31 December 2020.

46 Approval of consolidated financial statements

The consolidated financial statements for the year ended 31 December 2020 were approved by the Board of Directors and authorised for issue on 10 February 2021.

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